

*No securities regulatory authority has expressed an opinion about these securities and it is a criminal offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or the securities laws of any state of the United States. Neither the U.S. Securities and Exchange Commission (the "SEC") nor any U.S. state securities commission has approved or disapproved these securities or passed on the adequacy or accuracy of this document.*

## PROSPECTUS AND U.S. INFORMATION STATEMENT

New Issue

May 12, 2017



## TRISURA GROUP LTD.

### 5,800,000 Common Shares

This prospectus and U.S. information statement (this "prospectus") is being furnished to you as a shareholder of Brookfield Asset Management Inc. ("Brookfield Asset Management") in connection with the planned distribution by way of a special dividend (or "spin-off") by Brookfield Asset Management to the holders of its Class A limited voting shares ("Class A Shares") and Class B limited voting shares ("Class B Shares") of all of the common shares ("Common Shares") of Trisura Group Ltd. ("Trisura Group"), a company incorporated under, and governed by, the laws of Ontario. The spin-off will include approximately 5,800,000 Common Shares. Prior to the spin-off, we will acquire our operating subsidiaries from Brookfield Asset Management. Following completion of the spin-off, we will be an international specialty insurance provider operating in the surety, risk solutions, corporate insurance and reinsurance niche segments of the market.

We are filing this prospectus with the provincial and territorial securities regulatory authorities in Canada in order to qualify the special dividend of the Common Shares by Brookfield Asset Management. This prospectus also constitutes an information statement that is being furnished to the shareholders of Brookfield Asset Management in connection with the spin-off. Since the Common Shares will be distributed as a special dividend and no securities are being sold pursuant to this prospectus, no proceeds will be raised. All expenses in connection with the preparation and filing of this prospectus will be paid by Brookfield Asset Management from its general funds.

Pursuant to the spin-off, holders of Class A Shares and Class B Shares as of June 1, 2017, the record date for the spin-off (the "Record Date"), will be entitled to receive one Common Share for every 170 Class A Shares or Class B Shares held as of the Record Date, provided that the special dividend will be subject to any applicable withholding tax and no holder will be entitled to receive any fractional interests in the Common Shares. The distribution date for the spin-off is expected to be on or about June 22, 2017 (the "Distribution Date"). Holders who would otherwise be entitled to a fractional Common Share will receive a cash payment. **Holders of Class A Shares and Class B Shares will not be required to pay for the Common Shares to be received upon completion of the spin-off or tender or surrender Class A Shares or Class B Shares or take any other action in connection with the spin-off. Brookfield Asset Management shareholders are not being asked for a proxy and are requested not to send a proxy.** See "Questions and Answers Regarding the Spin-Off" for further details.

Brookfield Asset Management currently owns all of the outstanding Common Shares of Trisura Group. Accordingly, there is currently no public market for the Common Shares. We anticipate, however, that trading in the Common Shares will begin on a "when-issued" basis as early as two trading days prior to the Record Date and will continue up to but excluding the Distribution Date. On the Distribution Date, any "when-issued" trading of the Common Shares will end and "regular-way" trading will begin. The Toronto Stock Exchange ("TSX") has conditionally approved the listing of the Common Shares under the symbol "TSU". Listing is subject to our Company (as defined below) fulfilling all of the requirements of the TSX on or before July 19, 2017.

**There is currently no market through which the Common Shares may be sold and you may not be able to resell the Common Shares distributed to you under this prospectus. This may affect the pricing of the Common Shares in the secondary market, the transparency and availability of trading prices, the liquidity of the Common Shares, and the extent of issuer regulation. See "Risk Factors".**

**An investment in the Common Shares is subject to a number of risks that you should consider. In reviewing this prospectus, you should carefully consider the risk factors described under "Risk Factors".**

**No underwriter has been involved in the preparation of this prospectus or performed any review or independent due diligence of the contents of this prospectus.**

**This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities.**

**Certain directors of Trisura Group reside outside of Canada. Although each director has appointed Trisura Group, 333 Bay Street, Suite 1610, Box 22, Toronto, Ontario, Canada, M5H 2R2 as their agent for service of process in Ontario, it may not be possible for you to enforce judgments obtained in Canada against any person who resides outside of Canada, even if the person has appointed an agent for service of process. See "Service of Process and Enforcement of Civil Liabilities".**

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## ABOUT THIS PROSPECTUS

You should rely only on the information contained in this prospectus and are not entitled to rely on parts of the information contained in this prospectus to the exclusion of others. We have not authorized anyone to provide you with additional or different information. We are not offering to sell the Common Shares in any jurisdiction where the offer or sale of such securities is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus or the date indicated, regardless of the time of delivery of this prospectus or of any sale of the Common Shares. We expressly disclaim any duty to update this prospectus, except as required by applicable law.

Any graphs, tables or other information demonstrating the historical performance of our Company or any other entity contained in this prospectus are intended only to illustrate past performance of such entities and are not necessarily indicative of future performance of our Company or such entities.

## INFORMATION STATEMENT

This prospectus serves as Brookfield Asset Management's information statement in connection with the spin-off.

## MEANING OF CERTAIN REFERENCES

Unless otherwise noted or the context otherwise requires, when used in this prospectus, the terms “we”, “us”, “our” and “our Company” refer to Trisura Group together with all of its subsidiaries. Unless otherwise indicated or the context otherwise requires, the disclosure in this prospectus assumes that the spin-off has been completed and we have acquired our operating subsidiaries from Brookfield Asset Management, although we will not acquire such subsidiaries until shortly prior to the spin-off. Certain capitalized terms and phrases used in this prospectus are defined in the “Glossary”. Words importing the singular number include the plural, and *vice versa*, and words importing any gender include all genders.

When used in this prospectus, (i) “**Trisura Guarantee**” refers, collectively, to 6436978 Canada Limited (which we refer to as “**TG Holdco**”) and Trisura Guarantee Insurance Company (which we refer to as “**TGI**”) and (ii) “**Trisura International**” refers, collectively, to Trisura International Holdings Ltd. (formerly Imagine Group Holdings Limited) (which we refer to as “**Trisura International Holdco**”) and its subsidiaries, including Trisura International Insurance Ltd. (formerly Imagine Insurance Company Limited) (which we refer to as “**Trisura International Insurance**”).

## CURRENCY PRESENTATION

In this prospectus, unless otherwise specified or the context otherwise requires, all references to “\$” and “C\$” are to Canadian dollars and all references to “US\$” are to United States dollars.

## FINANCIAL INFORMATION

The financial information contained in this prospectus is presented in Canadian dollars and, unless otherwise indicated, has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board. The financial information on Trisura Group and Trisura Guarantee are presented in Canadian dollars, and the financial information of Trisura International is presented in United States dollars.

The acquisitions by Trisura Group of the common shares of TG Holdco and Trisura International Holdco from Brookfield Asset Management are transactions between entities under common control and are expected to be recorded at the carrying value of acquired assets and liabilities. See “The Spin-Off — Transaction Agreements” for further details.

## OPERATING METRICS

We use operating metrics to assess operating performance within Trisura Guarantee and Trisura International. We believe that they enhance an investor's understanding of our operating performance.

Within Trisura Guarantee, we use the claims and claims expense ratio (“**loss ratio**”), which is the ratio of claims expense to premiums earned, calculated by dividing net claims and loss adjustment expenses by net premiums earned. We also use the expense ratio, which is calculated by dividing the sum of net commissions, premium taxes and operating expenses by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of premiums earned, or underwriting margin. A combined ratio under 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result.

We use return on shareholders' equity (“**ROE**”) to assess operating performance. ROE is calculated based on comprehensive income of Trisura Guarantee or Trisura International, as applicable, divided by the average amount of shareholders' equity of that company for a given year.

We report the results of our minimum capital test (“**MCT**”) as prescribed by the Office of the Superintendent of Financial Institutions' (“**OSFI**”) Guideline A — Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies, as amended, restated or supplemented from time to time. MCT determines the minimum capital/margin required by TGI.

These operating metrics are operating performance measures that highlight trends in our core business or are required ratios used to measure compliance with OSFI standards. Our Company also believes that securities analysts, investors and other interested parties will use these operating metrics to compare our Company's performance against others in the specialty insurance industry. Our Company's management also uses these operating metrics in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Such operating metrics should not be considered as the sole indicators of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS.

## MARKET DATA AND INDUSTRY DATA

Market and industry data presented throughout this prospectus was obtained from third party sources, industry publications, and publicly available information, including the Marsh & McLellan Companies' Market Perspective — United States Insurance Market Report 2016, the 2016 Statistical Issue of Canadian Underwriter and the Standard & Poor's Rating Services' 2015 U.S. Property-Casualty Specialty Insurance Writers Thrive Amid Unique Opportunities and Obstacles Report, as well as industry and other data prepared by us on the basis of our knowledge of the Canadian, U.S. and international markets and economies (including our estimates and assumptions relating to these markets and economies based on that knowledge). We believe that our Company's market and economic data is accurate and that our estimates and assumptions are reasonable, but there can be no assurance as to the accuracy or completeness thereof. The accuracy and completeness of the market and economic data used throughout this prospectus are not guaranteed and we do not make any representation as to the accuracy of such information. Although we believe it to be reliable, we have not independently verified any of the data from third party sources referred to in this prospectus, analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, or ascertained the underlying economic and other assumptions relied upon by such sources.

## SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains “forward-looking information” within the meaning of applicable securities laws. Forward-looking information may relate to our Company's future outlook and anticipated events or results and may include information regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, plans and objectives of our Company. Particularly, information regarding future results, performance, achievements, prospects or opportunities of our Company or the Canadian, U.S. or international markets is forward-looking information. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “targets”, “expects” or “does not expect”,

“is expected”, “an opportunity exists”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate” or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might”, “will” or “will be taken”, “occur” or “be achieved”.

Discussions containing forward-looking information may be found, among other places, under “Risk Factors”, “Consolidated Capitalization”, “Business of Trisura Group”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura International”.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. The following factors, among others, which are discussed in greater detail in the “Risk Factors” section of this prospectus, could cause our actual results to vary from our forward-looking statements:

- Trisura Group’s lack of operating history;
- Trisura Group’s lack of independent means of generating revenue;
- an economic downturn in the jurisdictions in which our Company writes business or otherwise engages in business activities;
- competition in the specialty insurance industry;
- the cyclical nature of the specialty insurance industry;
- negative publicity focused on the specialty insurance industry and/or our Company;
- an inability to obtain or a downgrade in our credit ratings;
- a material decrease in the number of distribution partners selling our Company’s products;
- intense pricing competition;
- exposure to losses resulting from underwriting and claims;
- unforeseen factors causing an inadequacy in our loss reserves;
- errors and omission claims made against our Company;
- changes to laws, rules or regulations that impact our Company or our businesses;
- the availability and cost of reinsurance;
- the failure of our Company’s reinsurers and Capacity Providers (as defined below) to pay our Company’s reinsurance claims;
- regulatory challenges to the use of fronting arrangements;
- a decrease in business from third party Capacity Providers;
- the failure of Capacity Providers to market, underwrite or administer our policies;
- unsuccessful expansion into the U.S.;
- departure of key personnel;
- an inability to meet our debt obligations;
- fluctuations in the returns and values of securities in our investment portfolio;
- fluctuations in interest rates;
- inadequate levels of cash on hand and liquid assets to meet our Company’s obligations;

- an inability to obtain financing;
- changes in exchange rates;
- unpredictable catastrophic events;
- failure of our systems technology; and
- breaches of our cyber-security.

These statements and other forward-looking information are based on opinions, assumptions and estimates made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Accordingly, readers should not place undue reliance on forward-looking information. We do not undertake to update any forward-looking information contained herein, except as required by applicable securities laws.

#### **NOTICE TO U.S. SHAREHOLDERS**

**THE COMMON SHARES TO BE ISSUED TO YOU PURSUANT TO THE SPIN-OFF HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR SECURITIES REGULATORY AUTHORITIES OF ANY STATE OF THE UNITED STATES, NOR HAS THE SEC OR THE SECURITIES AUTHORITIES OF ANY STATE IN THE UNITED STATES PASSED ON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.**

The pro-rata distribution of Common Shares to you pursuant to the spin-off is not a “sale” within the meaning of Section 2(3) of the U.S. Securities Act and SEC Staff Legal Bulletin No. 4 and consequently the Common Shares have not and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States. It is intended that our Company will comply with the provisions of SEC Rule 12g3-2(b) under the United States *Securities Exchange Act of 1934*, as amended (the “U.S. Exchange Act”), so that the Common Shares will also be exempt from registration under the U.S. Exchange Act.

As a result, the Common Shares to be received by you pursuant to the spin-off will be freely transferable under U.S. federal securities laws except by persons who are “affiliates” (as such term is understood under U.S. securities laws) of Trisura Group after the Distribution Date or were “affiliates” of Trisura Group within 90 days prior to the date of any proposed resale. Persons who may be deemed to be “affiliates” of an issuer include individuals or entities that control, are controlled by, or are under common control with, the issuer, whether through the ownership of voting securities, by contract, or otherwise, and generally include executive officers and directors of the issuer as well as principal shareholders of the issuer. Any resale of such Common Shares by such an affiliate (or former affiliate) may be subject to the registration requirements of the U.S. Securities Act, absent an exemption therefrom. See “The Spin-Off — U.S. Securities Laws and Resale of Securities”.

This prospectus has been prepared in accordance with the disclosure requirements of Canadian securities laws. Such requirements are different than those of the United States applicable to registration statements under the U.S. Securities Act. You should be aware that requirements under such Canadian laws may differ from requirements under United States corporate and securities laws relating to U.S. corporations. However, in order to comply with conditions of SEC Staff Legal Bulletin No. 4, this prospectus contains substantially similar information as would be provided to you in a proxy or information statement concerning the spin-off complying with Schedule 14A under the U.S. Exchange Act.

The financial statements of Trisura Group, TG Holdco and Trisura International Holdco included in this prospectus have been prepared in accordance with IFRS, and are subject to Canadian auditing and auditor independence standards. Therefore, such financial statements may not be comparable to financial statements of United States corporations.

You should be aware that the transactions described herein may have tax consequences to holders who are resident in, or citizens of, the United States and such consequences may not be fully described in this prospectus or the materials provided to you. If you are resident in, or a citizen of, the United States, you are advised to

review the summary under the heading “Certain United States Federal Income Tax Considerations” and to consult your own tax advisors to determine the particular U.S. tax consequences to you of the spin-off in light of your particular situation, as well as any tax consequences that may arise under the laws of any other relevant foreign, state, local or other taxing jurisdiction.

The enforcement by investors of civil liabilities under U.S. federal securities laws may be affected adversely by the fact that the parties to the spin-off are incorporated or organized outside the United States, that some or all of the officers and directors and the experts named in this prospectus are residents of a foreign country, and that some or all of the assets of Brookfield Asset Management, our Company and such persons are located outside the United States. As a result, it may be difficult or impossible for persons in or subject to the securities laws of the United States who are issued Common Shares (“**U.S. Brookfield Shareholders**”) to effect service of process within the United States upon Brookfield Asset Management, Trisura Group, the officers or directors or the experts named herein, or to realize against them upon judgments of courts of the United States predicated upon civil liabilities under the federal securities laws of the United States or “blue sky” laws of any state within the United States. In addition, U.S. Brookfield Shareholders should not assume that the courts of Canada: (i) would enforce judgments of United States courts obtained in actions against such persons predicated upon civil liabilities under the federal securities laws of the United States or “blue sky” laws of any state within the United States; or (ii) would enforce, in original actions, liabilities against such persons predicated upon civil liabilities under the federal securities laws of the United States or “blue sky” laws of any state within the United States.

This prospectus has been prepared solely in accordance with disclosure requirements applicable in Canada. U.S. Brookfield Shareholders should be aware that such requirements are different from those of the United States applicable to registration statements under the U.S. Securities Act.

#### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Torys LLP, counsel to our Company, provided that the Common Shares are listed on a “designated stock exchange”, as defined in the *Income Tax Act* (Canada) (the “**Tax Act**”) on the Distribution Date, the Common Shares acquired pursuant to the spin-off on the Distribution Date will be, at that time, qualified investments under the Tax Act for a trust governed by a registered retirement savings plan (“**RRSP**”), deferred profit sharing plan, registered retirement income fund (“**RRIF**”), registered education savings plan (“**RESP**”), registered disability savings plan (“**RDSP**”), and a tax-free savings account (“**TFSA**”).

Notwithstanding that Common Shares may be qualified investments for a trust governed by a TFSA, RRSP or RRIF, the holder of such TFSA or annuitant under such RRSP or RRIF, as the case may be, will be subject to a penalty tax in respect of the Common Shares if such Common Shares are a “prohibited investment” and not “excluded property” for the TFSA, RRSP or RRIF for purposes of the Tax Act. Common Shares will generally be a “prohibited investment” if the holder of a TFSA or annuitant under a RRSP or RRIF, as the case may be, (i) does not deal at arm’s length with Trisura Group for purposes of the Tax Act or (ii) has a “significant interest” (within the meaning of the Tax Act) in Trisura Group. Generally, a holder or annuitant, as the case may be, will not have a significant interest in Trisura Group provided the holder or annuitant, together with persons with whom the holder or annuitant does not deal at arm’s length, does not own (and is not deemed to own pursuant to the Tax Act), directly or indirectly, 10.0% or more of the issued shares of any class of the capital stock of Trisura Group or of any other corporation that is related to Trisura Group (for purposes of the Tax Act). Pursuant to proposed amendments to the Tax Act, the rules in respect of “prohibited investments” are also proposed to apply to RDSPs, holders thereof, RESPs and subscribers thereof. Individuals who hold or intend to hold Common Shares in a TFSA, RRSP, RRIF, RESP or RDSP should consult their own tax advisors as to whether such securities will be a “prohibited investment” in their particular circumstances, including with respect to whether the Common Shares would be “excluded property” in their particular circumstances.

## SUMMARY

*This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information you should know about our Company and the Common Shares. You should read this entire prospectus carefully, especially the “Risk Factors” section and the more detailed information and financial data and statements contained elsewhere in this prospectus. Some of the statements in this prospectus constitute forward-looking statements that involve risks and uncertainties. See “Special Note Regarding Forward-Looking Information” for more information. Unless otherwise indicated or the context otherwise requires, the disclosure in this prospectus assumes that the spin-off has been completed and we have acquired our operating subsidiaries from Brookfield Asset Management, although we will not acquire such subsidiaries until shortly prior to the spin-off. See “Glossary” for the definitions of the various defined terms used throughout this prospectus.*

### **Trisura Group Overview**

Our Company is an international specialty insurance provider operating in the surety, risk solutions, corporate insurance and reinsurance niche segments of the market. TGI started writing business in Canada in 2006 and has a long track record of profitable operations. Trisura International Insurance, our international operating subsidiary, has operated as a reinsurance company for almost 15 years. We have a recent initiative to incorporate Trisura Specialty Insurance Company (“**Trisura US**”), an operating subsidiary in the U.S.

### **Stock Exchange Listing**

The TSX has conditionally approved the listing of the Common Shares under the symbol “TSU”. Listing is subject to our Company fulfilling all of the requirements of the TSX on or before July 19, 2017.

### **The Spin-Off**

Brookfield Asset Management is a leading global alternative asset manager, focused on investing in long-life, high quality assets across real estate, infrastructure, renewable power and private equity alongside institutional clients. Its strategy is to raise public and private capital to deploy on a value basis towards owning and operating businesses that form the backbone of the global economy, supporting the endeavors of individuals, corporations and governments worldwide. Following a strategic review, Brookfield Asset Management has determined that specialty insurance no longer fits with its long-term plans and our Company’s businesses would not receive the financial and other resources at Brookfield Asset Management necessary to support future growth.

Brookfield Asset Management believes, however, that these specialty insurance businesses could thrive if they had greater access to capital to deploy internationally towards growth opportunities and received more shareholder attention in the pursuit of strategic objectives. Rather than pursue a sales process that Brookfield Asset Management believes would have been disruptive to these businesses and unlikely to surface full value, Brookfield Asset Management has determined to create a new specialty insurance company for its shareholders to own as a standalone public company. As such, Trisura Group was formed in early 2017 to combine Brookfield Asset Management’s investments in specialty insurance and be prepared for spin-off to you.

As the spin-off of 100% of a business is the first of its kind for Brookfield Asset Management, certain steps have been taken to help support the success of our Company. First, Brookfield Asset Management intends to contribute the assistance of certain of its employees through a transition period by providing two directors to the board of directors of Trisura Group (the “**Board**”) and by providing the Chief Financial Officer (“**CFO**”) of Trisura Group. See “Directors and Executive Officers — Directors and Executive Officers of our Company” and “Executive Compensation — Management Services Agreement”. This assistance is expected to extend until the first annual general meeting of the shareholders of Trisura Group. Second, in advance of the spin-off, and in anticipation of our U.S. initiative, Brookfield Asset Management will subscribe for additional Common Shares in an amount of \$41.1 million. Third, Brookfield Asset Management has consulted with Partners Value Investments LP (“**PVI**”), the largest shareholder of Trisura Group immediately following completion of the spin-off with a Common Share ownership of approximately 9.0%, to ensure that PVI is supportive of the initiative. PVI is a partnership listed on the TSX Venture Exchange whose limited partnership units are owned



approximately 49.0% by Partners Limited and approximately 40.0% by the shareholders of Partners Limited, which include, directly and indirectly, current directors and senior executives of Brookfield Asset Management and its affiliates, in addition to a limited number of former senior executives. PVI has confirmed that it is willing to provide financial support to our Company, if necessary, and may increase its ownership interest over time.

The spin-off is intended to achieve the following objectives:

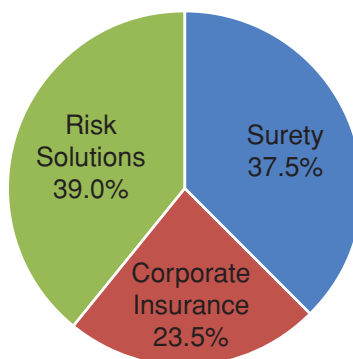
- Facilitate the exit of Brookfield Asset Management from the specialty insurance business so that our Company's businesses would no longer have to compete with other Brookfield Asset Management companies for capital and attention;
- Allow the management team of our Company to continue operating our business without the disruption or uncertainty associated with a sale process; and
- Provide our Company with access to public capital markets, thereby giving us the ability to finance growth or support capital requirements through future equity or debt issues.

See "The Spin-Off — Background to and Purpose of the Spin-Off" for further details.

## Our Business

Our Company is an international specialty insurance provider operating through the following four business lines: surety, risk solutions, corporate insurance, and reinsurance. The chart below provides a breakdown of our gross premiums written for the year ended December 31, 2016.

Gross Premiums Written (year ended December 31, 2016)<sup>(1)(2)</sup>



(1) Gross premiums written includes annual bonding facility fee income.

(2) No reinsurance premiums were written in 2016.

Surety accounted for approximately 37.5% of our total gross premiums written for the year ended December 31, 2016. Surety bonds are used to guarantee contractors' completion of contractual obligations and the payment to suppliers and sub-contractors, and in a wide variety of other circumstances to guarantee an entity's compliance with legal or fiduciary obligations.

Risk solutions accounted for approximately 39.0% of our total gross premiums written for the year ended December 31, 2016. The risk solutions business caters to three different client types: companies that offer warranties and administer warranty programs; captive insurance companies, managing general agents ("MGAs"), or reinsurers that require access to licensed insurance company paper; and associations and groups seeking solutions for their members' unique insurance needs.

Corporate insurance accounted for approximately 23.5% of our total gross premiums written for the year ended December 31, 2016. The major products offered by this business are: directors' and officers' insurance for

public, private and non-profit enterprises; errors and omissions liability insurance for both enterprises and professionals; business office package insurance for both enterprises and professionals; and fidelity insurance for both commercial and financial institutions.

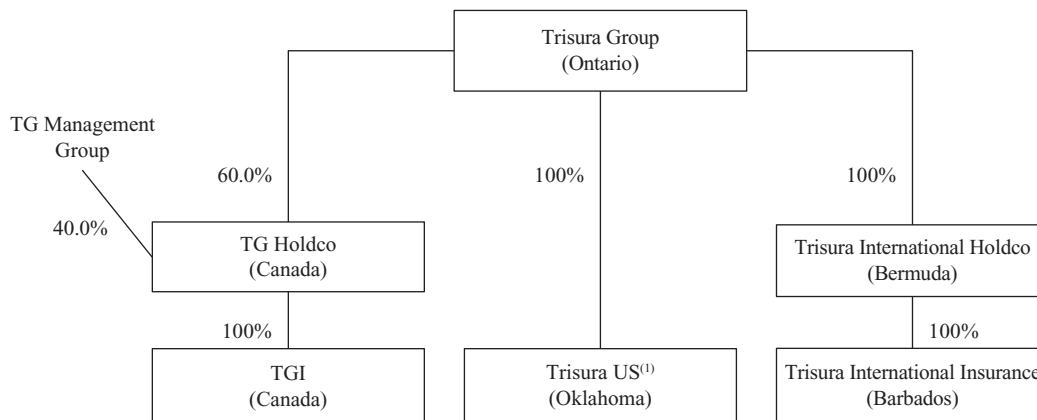
In the past, Trisura International wrote insurance through quota share (prospective), loss portfolio transfers (retrospective) and unique opportunities on an international, multi-line basis. Although Trisura International ceased writing new business at the end of 2008, following completion of the spin-off, Trisura International is expected to recommence writing new business acting as a multi-line reinsurer in the international reinsurance markets.

Our Company benefits from an experienced management team, strong distribution partners and a specialized and profitable business focus. We employ an effective enterprise risk management framework and will be supported by our largest shareholder, PVI. We plan to grow through strategic acquisitions and by building our business in the U.S. We believe our Company will be able to opportunistically capitalize on favourable market conditions through our multi-line and multi-jurisdictional platform. Further, we will continue to focus on our existing distribution network, and strive to increase the penetration of our products.

See “Business of Trisura Group” for further details.

### Ownership and Organizational Structure

As illustrated in the following organizational chart, Trisura Group has three principal regulated subsidiaries: TGI, Trisura US<sup>(1)</sup> and Trisura International Insurance. TGI is a wholly-owned direct subsidiary of TG Holdco. We have a 60.0% ownership interest in TG Holdco, while the remaining 40.0% ownership interest is held by certain members of the Trisura Guarantee management team who are party to the TG Holdco Unanimous Shareholder Agreement (as defined below) (the “**TG Management Group**”). Trisura US<sup>(1)</sup> is a wholly-owned subsidiary of Trisura Group. Trisura International Insurance is a wholly-owned direct subsidiary of Trisura International Holdco, which is a wholly-owned direct subsidiary of Trisura Group.



(1) Trisura US is not yet incorporated. We are in the process of seeking regulatory approval to launch Trisura US as a specialty insurance business in the U.S. and we anticipate incorporating Trisura US following receipt of regulatory approval.

See “Corporate Structure” for further details.

### Risk Factors

We are subject to a number of risks of which you should be aware. For a discussion of factors you should consider, we direct you to the risks described under “Risk Factors”.

## Summary Unaudited Pro Forma and Historical Financial Information

The following tables present summary pro forma financial information for Trisura Group and summary historical financial information for Trisura Guarantee and Trisura International. Unless otherwise indicated, all financial information presented is unaudited.

### *Trisura Group*

The following tables set out the unaudited summary pro forma financial data for Trisura Group as at and for the year ended December 31, 2016. This summary pro forma financial data has been derived from, and should be read in conjunction with, the unaudited pro forma financial statements of Trisura Group and the audited consolidated financial statements of TG Holdco and Trisura International Holdco and the related notes included elsewhere in this prospectus. The results of operations for the year ended December 31, 2016 reflected herein are not necessarily indicative of results that may be expected for future periods, and actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those listed under “Risk Factors”.

### *Unaudited Pro Forma Statement of Income Data*

<u>(in \$ thousands)</u>	<u>Year ended December 31, 2016</u>
Gross premiums written . . . . .	\$124,965
Net premiums written . . . . .	87,064
Change in unearned premiums . . . . .	<u>(14,809)</u>
Net premiums earned . . . . .	72,255
Fee income . . . . .	<u>3,365</u>
	75,620
Claims and loss adjustment expenses . . . . .	40,987
Reinsurers’ share of claims and loss adjustment expenses . . . . .	(12,942)
Commissions . . . . .	31,384
Reinsurance commissions . . . . .	(8,314)
Premium taxes . . . . .	3,591
Operating expenses . . . . .	<u>26,604</u>
	81,310
Net underwriting loss . . . . .	(5,690)
Investment income . . . . .	11,669
Foreign exchange loss . . . . .	(528)
Interest expense . . . . .	(481)
Change in liabilities to participating shareholders . . . . .	(155)
Income tax expense . . . . .	<u>(1,862)</u>
Net income . . . . .	<u>\$ 2,953</u>
Per share . . . . .	<u>\$ 0.51</u>

*Unaudited Pro Forma Statement of Financial Position Data*

<u>(in \$ thousands)</u>	<u>As at December 31, 2016</u>
Cash and cash equivalents . . . . .	\$163,197
Investments . . . . .	\$179,264
Total assets . . . . .	\$460,502
Unearned premiums . . . . .	\$ 90,612
Unpaid claims and loss adjustment provisions . . . . .	\$163,970
Total liabilities . . . . .	\$347,983
Total shareholders' equity . . . . .	\$112,519

***Trisura Guarantee***

The following tables set out the summary financial data for Trisura Guarantee for the periods indicated. The summary financial data for Trisura Guarantee are derived from the audited consolidated financial statements of TG Holdco and the related notes included elsewhere in this prospectus. The summary financial data for Trisura Guarantee should be read in conjunction with those financial statements.

*Statement of Comprehensive Income Data*

<u>(in \$ thousands)</u>	<u>Year ended December 31,<sup>(1)</sup></u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross premiums written . . . . .	\$124,802	\$104,142	\$91,143
Net premiums written . . . . .	86,902	71,849	62,947
Change in unearned premiums . . . . .	(14,809)	(7,564)	(7,921)
Net premiums earned . . . . .	72,093	64,285	55,026
Fee income . . . . .	3,352	3,149	2,353
	<u>75,445</u>	<u>67,434</u>	<u>57,379</u>
Claims and loss adjustment expenses . . . . .	35,338	24,871	15,647
Reinsurers' share of claims and loss adjustment expenses . . . . .	(12,942)	(11,694)	(5,994)
Commissions . . . . .	30,661	27,398	23,321
Reinsurance commissions . . . . .	(8,314)	(6,838)	(5,995)
Premium taxes . . . . .	3,591	3,083	2,663
Operating expenses . . . . .	21,480	21,207	19,910
	<u>69,814</u>	<u>58,027</u>	<u>49,552</u>
Net underwriting income . . . . .	5,631	9,407	7,827
Net investment income . . . . .	1,137	2,570	3,067
Interest expense . . . . .	(481)	—	—
Change in liabilities to participating shareholders . . . . .	(155)	(3,540)	993
Income tax expense . . . . .	(1,564)	(2,936)	(2,678)
Net income . . . . .	4,568	5,501	9,209
Other comprehensive income (loss) . . . . .	5,037	(3,656)	1,027
Comprehensive income . . . . .	<u>\$ 9,605</u>	<u>\$ 1,845</u>	<u>\$10,236</u>

(1) The financial information in this table is derived from the audited consolidated financial statements of TG Holdco included elsewhere in this prospectus.

**Ratios:**

Growth rate . . . . .	19.8%	14.3%	15.2%
Loss ratio . . . . .	31.1%	20.5%	17.5%
Expense ratio . . . . .	65.8%	69.8%	72.5%
Combined ratio . . . . .	96.9%	90.3%	90.0%

*Statement of Financial Position Data*

<u>(in \$ thousands)</u>	<u>As at December 31,<sup>(1)</sup></u>	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents . . . . .	\$ 29,378	\$ 18,596
Investments . . . . .	129,360	108,702
Total assets . . . . .	259,856	210,241
Unearned premiums . . . . .	90,612	71,480
Unpaid claims and loss adjustment expenses . . . . .	67,465	49,475
Liabilities to participating shareholders . . . . .	16,008	15,812
Total liabilities . . . . .	240,471	161,759
Shareholders' equity . . . . .	19,385	48,482

(1) The financial information in this table is derived from the audited consolidated financial statements of TG Holdco included elsewhere in this prospectus.

### *Trisura International*

The following tables set out the summary financial data for Trisura International for the periods indicated. The summary financial data for Trisura International are derived from the audited consolidated financial statements of Trisura International Holdco and the related notes included elsewhere in this prospectus. The summary financial data for Trisura International should be read in conjunction with those financial statements.

#### *Statement of Profit or Loss and Other Comprehensive Income Data*

<u>(in US\$ thousands)</u>	<u>Year ended December 31,<sup>(1)</sup></u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Revenues</b>			
Net premiums written . . . . .	\$ 123	\$ 138	\$ 261
Net premiums earned . . . . .	123	138	261
Net investment income . . . . .	8,528	4,225	21,012
Fee (loss) income on investment contracts . . . . .	(571)	706	4,685
Net foreign exchange (losses) gains . . . . .	(399)	2,412	485
Other income . . . . .	10	—	451
	<u>7,691</u>	<u>7,481</u>	<u>26,894</u>
<b>Expenses</b>			
Claims and claims adjustment expenses incurred . . . . .	4,268	(13,102)	31,063
Policy acquisition costs . . . . .	546	439	69
Operating expenses . . . . .	3,871	4,654	5,226
	<u>8,685</u>	<u>(8,009)</u>	<u>36,358</u>
	(994)	15,490	(9,464)
Income tax expense . . . . .	225	254	247
Net (loss) income . . . . .	<u>\$(1,219)</u>	<u>\$ 15,236</u>	<u>\$(9,711)</u>
Other comprehensive loss . . . . .	<u>\$ (938)</u>	<u>\$ (930)</u>	<u>\$ (175)</u>
Comprehensive (loss) income . . . . .	<u>\$(2,157)</u>	<u>\$ 14,306</u>	<u>\$(9,886)</u>

(1) The financial information in this table is derived from the audited consolidated financial statements of Trisura International Holdco included elsewhere in this prospectus.

#### *Statement of Financial Position Data*

<u>(in US\$ thousands)</u>	<u>As at</u> <u>December 31,<sup>(1)</sup></u>	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents . . . . .	\$ 68,971	\$ 59,833
Investments . . . . .	48,623	79,450
Total assets . . . . .	118,682	142,670
Total liabilities . . . . .	80,370	102,201
Total shareholder's equity . . . . .	38,312	40,469

(1) The financial information in this table is derived from the audited consolidated financial statements of Trisura International Holdco included elsewhere in this prospectus.

## QUESTIONS AND ANSWERS REGARDING THE SPIN-OFF

*The following questions and answers address briefly some questions you may have regarding the spin-off. These questions and answers may not address all questions that may be important to you as a holder of Class A Shares or Class B Shares and these questions and answers should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. See “Glossary” for the definitions of the various defined terms used throughout this prospectus.*

### Questions

### Answers About the Spin-Off

Why is our Company being spun off by Brookfield Asset Management?

Following a strategic review, Brookfield Asset Management has determined that specialty insurance no longer fits with its long-term plans and our Company’s businesses would not receive the financial and other resources at Brookfield Asset Management necessary to support future growth. Brookfield Asset Management believes, however, that these specialty insurance businesses could thrive if they had greater access to capital to deploy internationally towards growth opportunities and received more shareholder attention in the pursuit of strategic objectives. Rather than pursue a sales process that Brookfield Asset Management believes would have been disruptive to these businesses and unlikely to surface full value, Brookfield Asset Management has determined to create a new specialty insurance company for its shareholders to own as a standalone public company. See “The Spin-Off — Background to and Purpose of the Spin-Off”.

What will our Company’s relationship with Brookfield Asset Management be after the spin-off?

Upon completion of the spin-off, Brookfield Asset Management will no longer hold any Common Shares or other interests in our Company, other than any Common Shares withheld to satisfy withholding tax obligations. For additional information about withholding tax obligations, see “Certain Canadian Federal Income Tax Considerations” and “Certain United States Federal Income Tax Considerations”.

To help support the initial success of our Company, Brookfield Asset Management intends to contribute the assistance of certain of its employees through a transition period by providing two directors to the Board and by providing the CFO of Trisura Group. This assistance is expected to extend until the first annual general meeting of the shareholders of Trisura Group. See “The Spin-Off — Background to and Purpose of the Spin-Off”.

Will there be any significant shareholders of Trisura Group after the spin-off?

PVI will, directly and indirectly, hold approximately 9.0% of the outstanding Common Shares following completion of the spin-off. PVI is willing to provide financial support to our Company, if necessary, and may increase its ownership interest over time. See “The Spin-Off — Background to and Purpose of the Spin-Off”.

How will the spin-off work?

Brookfield Asset Management intends to make a special dividend to holders of its Class A Shares and Class B Shares of approximately 5,800,000 Common Shares of Trisura Group, representing all of the Common Shares of Trisura Group. As a result of the special dividend, holders of Class A Shares and Class B Shares will be entitled to receive one Common Share for every 170 Class A Shares or Class B Shares held as of the Record Date for the special dividend, provided that the special dividend will be subject to any applicable withholding tax and no holder will be entitled to receive any fractional interests in the Common Shares. Holders who would otherwise be entitled to a fractional Common Share will receive a cash payment. For additional information, see “The Spin-Off — Mechanics of the Spin-Off”.

Questions

Answers About the Spin-Off

Are there risks associated with owning the Common Shares?

Yes, our business faces both general and specific risks and uncertainties. For a discussion of factors you should consider, please see “Risk Factors”.

When will the spin-off be completed?

Brookfield Asset Management expects to complete the spin-off on or about June 22, 2017.

What is the record date for the distribution?

On or about June 1, 2017.

If I am a holder of Class A Shares or Class B Shares, what do I have to do to participate in the distribution?

Nothing. You are not required to pay for the Common Shares that you will receive upon the spin-off or tender or surrender your Class A Shares or Class B Shares or take any other action in connection with the spin-off. No vote of Brookfield Asset Management’s shareholders will be required for the spin-off. If you own Class A Shares or Class B Shares as of the close of business on the Record Date, a certificate reflecting your ownership of the Common Shares will be mailed to you, or your brokerage account will be credited for the Common Shares, on or about June 27, 2017.

How many Common Shares will I receive?

You will be entitled to receive one Common Share for every 170 Class A Shares and Class B Shares you hold as of the Record Date of the special dividend. Based on the number of Class A Shares and Class B Shares expected to be outstanding on the Record Date for the special dividend, Brookfield Asset Management expects to distribute approximately 5,800,000 Common Shares. No holder will be entitled to receive any fractional interests in the Common Shares. Holders who would otherwise be entitled to a fractional Common Share will receive a cash payment. For additional information on the distribution, see “The Spin-Off”.

Is the spin-off taxable for Canadian federal income tax purposes?

Holders who receive the Common Shares pursuant to the spin-off generally will be considered to have received a taxable dividend equal to the fair market value of the gross amount of the Common Shares so received plus the amount of any cash received in lieu of fractional Common Shares, without reduction for any tax withheld. Non-Canadian shareholders who acquire the Common Shares pursuant to the spin-off will be considered to have received a taxable dividend for Canadian federal income tax purposes and will be subject to Canadian federal withholding tax on the amount of the special dividend. To satisfy the withholding tax liabilities of non-Canadian registered shareholders, Brookfield Asset Management will withhold a portion of the Common Shares, and a portion of any cash distribution in lieu of fractional Common Shares, otherwise distributable. Brookfield Asset Management will purchase these withheld Common Shares and the proceeds of this sale, together with the amount of any cash withheld from any cash distribution in lieu of fractional Common Shares, will be remitted to the Canadian federal government in satisfaction of the withholding tax liabilities described above. For non-Canadian beneficial shareholders, these withholding tax obligations will be satisfied in the ordinary course through arrangements with their broker or other intermediary. Beneficial owners should consult their brokers to determine how the withholding tax obligations will be satisfied for their Common Shares. You should carefully read the section in this prospectus entitled “Certain Canadian Federal Income Tax Considerations”, which qualifies in its entirety the foregoing summary, and you should consult an independent tax advisor regarding the relevant tax considerations in light of your particular circumstances.



## Questions

## Answers About the Spin-Off

Is the spin-off taxable for United States federal income tax purposes?

For U.S. federal income tax purposes, our Company and Brookfield Asset Management intend to treat the distribution pursuant to the spin-off as a tax-free distribution to U.S. Holders (as defined below), although this position is not free from doubt. If, contrary to expectation, the distribution is determined not to qualify as a tax-free distribution, then each U.S. Holder who receives Common Shares in the distribution generally is expected to be treated as receiving a taxable dividend. You are urged to read carefully the section in this prospectus entitled “Certain United States Federal Income Tax Considerations”, which qualifies in its entirety the foregoing discussion, and you are urged to consult your own tax advisor regarding the relevant tax considerations in light of your particular circumstances.

If I am a person in or subject to the securities laws of the United States, are there any restrictions or obligations that I must adhere to with respect to the resale of Common Shares?

The pro-rata distribution of Common Shares to you pursuant to the spin-off is not an “offer to sell” or a “disposition for value” within the meaning of Section 2(3) of the U.S. Securities Act and SEC Staff Legal Bulletin No. 4 and consequently the Common Shares have not and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States. It is intended that our Company will comply with the provisions of SEC Rule 12g3-2(b) under the U.S. Exchange Act so that the Common Shares will also be exempt from registration under the U.S. Exchange Act. As a result, the Common Shares to be received by you pursuant to the spin-off will be freely transferable under U.S. federal securities laws except by persons who are “affiliates” (as such term is understood under U.S. securities laws) of Trisura Group after the Distribution Date or were “affiliates” of Trisura Group within 90 days prior to the date of any proposed resale. Persons who may be deemed to be “affiliates” of an issuer include individuals or entities that control, are controlled by, or are under common control with, the issuer, whether through the ownership of voting securities, by contract, or otherwise, and generally include executive officers and directors of the issuer as well as principal shareholders of the issuer. Any resale of such Common Shares by such an affiliate (or former affiliate) may be subject to the registration requirements of the U.S. Securities Act, absent an exemption therefrom. See “The Spin-Off — U.S. Securities Laws and Resale of Securities”.

Where will I be able to trade the Common Shares?

There is currently no public trading market for the Common Shares. However, the TSX has conditionally approved the listing of the Common Shares under the symbol “TSU”. Listing is subject to our Company fulfilling all of the requirements of the TSX on or before July 19, 2017.

We anticipate that trading in the Common Shares will begin on a “when-issued” basis as early as two trading days prior to the Record Date for the special dividend and will continue up to but excluding the Distribution Date. “When-issued” trading in the context of a spin-off refers to a sale or purchase made conditionally on or before the distribution date because the securities of the spun-off entity have not yet been distributed.

On the Distribution Date, any “when-issued” trading of the Common Shares will end and “regular-way” trading will begin. Regular-way trading refers to trading after the security has been distributed and typically involves a trade that settles on the third full trading day following the date of the trade. We cannot predict the trading prices for the Common Shares before, on or after the Distribution Date.

Questions

Answers About the Spin-Off

Will the number of Brookfield Asset Management shares I own change as a result of the spin-off?

No. The number of Class A Shares and Class B Shares that you own will not change as a result of the spin-off.

What will happen to the listing of Brookfield Asset Management's Class A Shares?

Nothing. Brookfield Asset Management's Class A Shares will continue to trade on the New York Stock Exchange ("NYSE") under the symbol "BAM", on the TSX under the symbol "BAM.A" and on the NYSE Euronext under the symbol "BAMA".

Whom do I contact for information regarding our Company and the spin-off?

Before the spin-off, you should direct inquiries relating to the spin-off to:

Brookfield Asset Management Inc.  
Suite 300, Brookfield Place  
181 Bay Street  
P.O. Box 762  
Toronto, Ontario, Canada M5J 2T3

Attention: A.J. Silber

After the spin-off, you should direct inquiries relating to the Common Shares to:

Trisura Group Ltd.  
333 Bay Street, Suite 1610, Box 22  
Toronto, Ontario, Canada M5H 2R2

Attention: Greg Morrison

After the spin-off, the transfer agent and registrar for the Common Shares will be:

CST Trust Company  
320 Bay St.  
Toronto, Ontario, Canada M5H 4A6

## **RISK FACTORS**

You should carefully consider the following factors in addition to the other information set forth in this prospectus. If any of the following risks actually occur, our business, financial condition and results of operations and the value of the Common Shares would likely suffer.

### **Newly Formed Company**

Trisura Group is a newly formed company with no separate operating history and the historical and pro forma financial information included herein does not reflect the financial condition or operating results we would have achieved during the periods presented, and therefore may not be a reliable indicator of our future financial performance. Trisura Group was formed in January 2017 and has only recently commenced activities and has not generated any significant net income to date. Our lack of operating history will make it difficult to assess our ability to operate profitably and make distributions to shareholders. Although most of our current operating subsidiaries have been under Brookfield Asset Management's control prior to the formation of Trisura Group, their results have previously been reported on a stand-alone basis and, therefore, may not be indicative of our future financial condition or operating results. We urge you to carefully consider the basis on which the historical and pro forma financial information included herein was prepared and presented.

### **Holding Company**

Trisura Group is a holding company and its material assets consist solely of interests in our operating subsidiaries. Trisura Group has no independent means of generating revenue. We depend on distributions and other payments from our operating businesses to provide us with the funds necessary to meet our financial obligations. Our operating businesses are legally distinct from Trisura Group and some of them are or may become restricted in their ability to pay dividends and distributions or otherwise make funds available to Trisura Group pursuant to local law, regulatory requirements and their contractual agreements, including agreements governing their financing arrangements. Our operating businesses will generally be required to service their debt obligations before making distributions to Trisura Group.

### **Fluctuations in Results of Operations**

The specialty insurance business in Canada, the U.S. and internationally is affected by many factors which can cause fluctuations in the results of operations of our Company. Many of these factors are beyond our Company's control. An economic downturn in those jurisdictions in which our Company writes business or otherwise conducts business activities could result in less demand for specialty insurance and lower policy amounts. As a specialty insurance company, our Company is subject to claims arising out of catastrophes, which may have a significant impact on our results of operations and financial condition. These factors, together with the industry's historically cyclical competitive pricing, could result in fluctuations in the underwriting results and net income of our Company. A significant portion of the earnings of specialty insurance companies is derived from the income from their investment portfolios. Our Company's investment income will fluctuate depending on the returns and values of securities in our investment portfolio.

### **Highly Competitive Specialty Insurance Business**

The specialty insurance business is highly competitive with pricing being a primary means of competition. Other elements of competition include availability and quality of products, capacity, quality and speed of service, ratings, financial strength, distribution systems and technical expertise.

Our Company competes with many other insurance companies. Certain of these competitors are larger and have greater financial resources than are available to our Company. In addition, certain competitors have from time to time decreased their prices in an apparent attempt to gain market share. Unlike our Company, some of our competitors may offer policy administration or other services or be willing to take on significant underwriting risk. Any increase in competition in this segment, especially by one or more larger companies, could materially and adversely affect our Company's business, financial condition, results of operations and prospects. Competitors are also acquiring distributors to our detriment.

As competitors introduce new products and as new competitors enter the market, our Company may encounter additional and more intense competition. There can be no assurance that we will continue to increase revenues or be profitable. To a large degree, future revenues of our Company are dependent upon our ability to continue to develop and market our products and to enhance the capabilities of our products to meet changes in customer needs.

### **Cyclical Nature of Specialty Insurance Industry**

Historically, the results of companies in the specialty insurance industry have been subject to significant fluctuations and uncertainties. The profitability of specialty insurers can be affected significantly by many factors, including regulatory regimes, developing trends in tort and class action litigation, adoption of consumer initiatives regarding rates or claims handling procedures, and privacy and consumer protection laws that prevent insurers from assessing risk, or factors that have a high correlation with risks considered, such as credit scoring.

The financial performance of the specialty insurance industry has historically tended to fluctuate in cyclical patterns of “soft” markets characterized generally by increased competition, resulting in lower premium rates and underwriting standards, followed by “hard” markets characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. Our Company’s profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on our Company’s results of operations and financial condition.

### **Negative Publicity in the Specialty Insurance Industry**

A number of our Company’s products and services are ultimately distributed to individual consumers. From time to time, consumer advocacy groups or the media may focus attention on our Company’s products and services, thereby subjecting the specialty insurance industry to periodic negative publicity. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the specialty insurance industry as well as increased litigation. Such consequences may increase our Company’s costs of doing business and adversely affect our Company’s profitability by impeding our ability to market our products and services or increasing the regulatory burdens under which our Company operates.

### **A.M. Best Ratings**

Rating agencies evaluate insurance companies based on their ability to pay claims. The ratings of A.M. Best Company, Inc. (“**A.M. Best**”) are subject to periodic review using, among other things, proprietary capital adequacy models, and are subject to revision or withdrawal at any time. Our competitive position relative to other companies is determined in part by the A.M. Best rating of our specialty insurance subsidiaries. A.M. Best ratings are directed toward the concerns of policyholders and insurance agencies and are not intended for the protection of investors or as a recommendation to buy, hold or sell securities.

Ratings are an important factor in establishing and maintaining a competitive position in the specialty insurance market, especially in commercial insurance where TGI focuses. TGI has been assigned an “A–” rating by A.M. Best. There can be no assurances that TGI will be able to maintain this rating. Any downgrade in this rating would likely adversely affect our business through the loss of certain existing and potential policyholders to other companies with higher ratings, and through certain insurance brokerage firms with which we now do business seeking a higher rated issuing carrier to write their business.

After the spin-off and following its incorporation, Trisura US intends to apply for a rating from A.M. Best. There can be no assurances that Trisura US will receive a rating, or that any rating obtained will be favourable.

### **Reliance on Distribution Partners**

We distribute our products primarily through a network of distribution partners. These distribution partners sell our competitors’ products and may, subject to certain limitations, stop selling our products altogether. Strong competition exists among insurers for distribution partners with demonstrated ability to sell insurance

products. Premium volume and profitability could be materially adversely affected if there is a material decrease in the number of distribution partners that choose to sell our Company's products.

### **Product and Pricing**

We price our products considering numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, reinsurance costs, and the investment income earned on that capital. Our Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability, avoiding wide fluctuations in such rate unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

During periods of intense competition, our Company's competitors may price their products below the rates our Company considers acceptable. Although we may adjust our pricing up or down to maintain our competitive position, we strive to ensure our pricing will produce an appropriate return on invested capital. Intense competition may not only prevent us from gaining market share for any particular product line, but there is no assurance that our Company will not lose market share during periods of intense pricing competition.

### **Exposure to Losses Resulting from Underwriting and Claims**

Our Company is exposed to losses resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs. Our success depends upon our ability to accurately assess the risks associated with the insurance policies that our Company writes.

Our Company's underwriting objectives are to develop business within our target markets on a prudent and diversified basis and to achieve profitable underwriting results (i.e. a combined ratio below 100%). There can be no assurances that our Company will properly assess the risks associated with the insurance policies that we write and may, therefore, experience increased adjudication, settlement and claims costs.

### **Estimates of Loss Reserves and Claims Management**

The amounts established and to be established by our Company for loss and loss adjustment expense reserves are estimates of future costs based on various assumptions, including actuarial projections of the cost of settlement and the administration of claims, estimates of future trends in claims severity and frequency, and the level of insurance fraud. Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact our Company's ability to accurately assess the risks of the policies that we write. In addition, future adjustments to loss reserves and loss adjustment expenses that are unanticipated by management could have an adverse impact upon the financial condition and results of operations of our Company. Although our Company's management believes our overall reserve levels as at the date of this prospectus are adequate to meet our obligations under existing policies, actual losses may deviate, perhaps substantially, from the reserves reflected in our Company's financial statements. To the extent reserves prove to be inadequate, our Company would have to increase such reserves and incur a charge to earnings.

### **Errors and Omissions Claims**

We are subject to claims and litigation in the ordinary course of business resulting from alleged errors and omissions in placing specialty insurance and handling claims. The placement of specialty insurance and the handling of claims involve substantial amounts of money. Since errors and omissions claims against our Company may allege our Company's potential liability for all or part of the amounts in question, claimants may seek large damage awards and these claims can involve significant defense costs. Errors and omissions could include, for example, our Company's employees or sub-agents failing, whether negligently or intentionally, to place coverage or file claims on behalf of customers, to appropriately and adequately disclose insurer fee arrangements to our customers, to provide insurance providers with complete and accurate information relating to the risks being insured or to appropriately apply funds that we hold for our customers on a fiduciary basis. It is not always possible to prevent or detect errors and omissions, and the precautions our Company takes may not be effective in all cases.

Our Company's business, financial condition and/or results may be negatively affected if in the future our errors and omissions insurance coverage proves to be inadequate or unavailable. In addition, errors and omissions claims may harm our Company's reputation or divert management resources away from operating our business.

### **Adverse Effects of Regulatory Changes**

The specialty insurance industry is heavily regulated, and changes in the regulations governing the specialty insurance industry in any jurisdiction in which we operate, or increased regulations, may significantly affect the operations and financial results of our Company.

Our Company is subject to the laws, rules and regulations of the jurisdictions in which we carry on business, including Canada, the U.S. and Barbados. These laws, rules and regulations cover many aspects of our business, the assets in which we may invest, the levels of capital and surplus and the standards of solvency that we must maintain, and the amount of dividends which we may declare and pay. Changes to laws, rules or regulations are difficult to predict and could materially adversely affect our Company's business, results of operations and financial condition. In addition, more restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive.

TGI is regulated by OSFI. Should OSFI be concerned about an unsafe course of conduct or an unsound practice in conducting the business of a federally regulated insurance company, OSFI may direct the insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. In certain circumstances, OSFI may take control of the assets of an insurance company or take control of the company itself. There is no guarantee that OSFI would not take such actions under certain circumstances, including with respect to TGI.

The laws of the State of Oklahoma, where Trisura US is expected to be domiciled, impose risk-based capital standards and other minimum capital, loss reserve and surplus requirements to which Trisura US will be subject. It is expected that these rules will stay in place and not be adjusted. To the extent that regulators change (i) gross reserving requirements, (ii) ceded reserve requirements, (iii) net reserve requirements, or (iv) capital requirements for supporting any of these areas, it could materially and adversely affect either the amount of business that Trisura US will be able to write or increase its capital requirements. Failure to meet applicable risk-based capital requirements or minimum statutory capital requirements could subject Trisura US to further examination or corrective action imposed by state regulators, including limitations on Trisura US's writing of additional business, state supervision or liquidation. Any changes in existing risk-based capital requirements or minimum statutory capital requirements may require Trisura US to increase its statutory capital levels, which it may be unable to do.

Trisura International Insurance is regulated by the Financial Services Commission in Barbados. The Barbados regulators have broad supervisory and regulatory powers available to them in connection with licenses, solvency capital requirements, investments, dividends, corporate governance, requirements for key personnel, conduct of business rules, periodic examinations and reporting requirements. The regulators have the authority to take enforcement actions and impose sanctions, including fines and the withdrawal of authorization. In certain circumstances, the regulators may take control of regulated insurance or reinsurance companies. The imposition of such measures against Trisura International Insurance could have a material adverse effect on our business, financial condition and performance.

### **Change of Control Restrictions of U.S. Insurance Laws**

The laws of the State of Oklahoma, where Trisura US is expected to be domiciled, require prior approval by the Department of Insurance in Oklahoma of any change of control of an insurer. "Control" is defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the regulated insurance company, whether through the ownership of voting securities, by contract or otherwise. Control is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company domiciled in Oklahoma or any entity that controls an insurance company domiciled in Oklahoma. Any person wishing to acquire "control" of our Company would first be required to obtain the approval of the Department of Insurance in Oklahoma or file appropriate disclaimers.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our Company, including through transactions (and in particular, unsolicited transactions), that some or all of our shareholders might consider to be desirable. See “Business of Trisura Group — Regulatory Framework — U.S.” for further details.

### **Availability of Reinsurance**

Trisura US intends to provide access to the U.S. specialty insurance markets in exchange for a ceding fee by providing access to its A.M. Best rating (for which it intends to apply), licensing and reputation. As part of its business strategy, Trisura US will reinsure substantially all underwriting risk related to its business to manage claims exposure and diversify its business by types of specialty insurance and geographic area. The availability and cost of reinsurance are subject to prevailing market conditions that will generally be beyond the control of Trisura US and may affect its level of business and profitability. There can be no assurance that developments may not occur in the future which might cause a shortage of reinsurance capacity in those classes of business which Trisura US will underwrite, which could result in the curtailment of issuing of policies in a certain line of business or containing limits above a certain size. Trisura US may be unable to maintain its reinsurance arrangements or to obtain other reinsurance in adequate amounts and at favourable rates, particularly if reinsurers become unwilling or unable to support its specialized model in the future. In recent years, favourable market conditions, including growth in the role of MGAs, reinsurance on and offshore and other alternative sources of reinsurance have provided strong capacity to the industry. A decline in the availability of reinsurance, increases in the cost of reinsurance or a decreased level of activity by MGAs could limit the amount of business Trisura US could write and materially and adversely affect our business, financial condition, results of operations and prospects.

### **Ability to Recover Amounts Due from Capacity Providers**

Trisura US intends to write specialty insurance on behalf of both MGAs, who sell, control, and administer books of insurance business that are supported by third party reinsurers seeking access to U.S. specialty insurance business, and domestic and foreign insurers (collectively, referred to as “**Capacity Providers**”); 90.0 to 100% of the actual insurance coverage risk under these policies will be transferred to Trisura US’s Capacity Providers in exchange for ceding a portion of the fees it earns. Because it will transfer such risks to Capacity Providers, Trisura US generally will hold very little net reserves for losses that might arise as a result of claims made under these policies. However, as the issuer of the policies, Trisura US will remain directly liable to these policyholders. If Trisura US’s Capacity Providers are unable to cover claims made under policies that Trisura US intends to write and then reinsures, we could suffer a material adverse effect to our financial condition and results of operations.

Trisura US will reinsure substantially all of the underwriting in connection with its arrangements with its Capacity Providers. Trisura US will assume the risk of insolvency and the failure to pay by a Capacity Provider. Trisura US will generally select either well capitalized, highly rated authorized Capacity Providers or will require the Capacity Providers to post substantial collateral to secure the reinsured risks. However, if any of the Capacity Providers becomes insolvent, or otherwise refuses to reimburse losses paid to these policyholders (or Trisura US, to the extent it reimburses or pays policyholders or pays other claims directly) in a timely manner, the corresponding impact to Trisura US’s liability for these claims could materially and adversely affect our financial condition and results of operations. Trisura US intends to often hold collateral to protect it against a Capacity Provider’s failure to pay claims. However, collateral may not be sufficient to cover Trisura US’s liability for these claims, and it may not be able to cause the Capacity Provider to deliver additional collateral.

If Trisura US fails to realize a reinsurance recoverable owed under these arrangements due to insolvency, dispute or other unwillingness or inability of any of its reinsurers to meet their obligations to Trisura US, or due to Trisura US’s inability to access sufficient collateral to cover its liabilities, our business, financial condition, results of operations or prospects could be materially and adversely affected.

## **Regulatory Challenges to Use of Fronting Arrangements**

Trisura US intends to enter into arrangements under which it will permit its licensed status to be used by captive insurance companies to issue insurance policies and warranties (often referred to as fronting arrangements) with MGAs. The MGA is expected to administer the business, work with Trisura US and the reinsurer(s) to settle all claims and the Capacity Providers will reinsure 90.0 to 100% of the risks. Trisura US will receive a ceding fee, and share its proportionate share in the profits or losses of the business it writes for the Capacity Provider. Some state insurance regulators may object to Trisura US's fronting arrangements in states in which its Capacity Providers are not licensed.

Notwithstanding these state law restrictions on ceding insurers, the Nonadmitted and Reinsurance Reform Act contained in the United States *Dodd-Frank Wall Street Reform and Consumer Protection Act* (the "NRRA") provides that all laws of a ceding insurer's nondomestic state (except those with respect to taxes and assessments on insurers or insurance income) are preempted to the extent that they otherwise apply the laws of the state to reinsurance agreements of nondomestic ceding insurers. The NRRA places the power to regulate reinsurer financial solvency primarily with the reinsurer's domiciliary state and requires credit for reinsurance to be recognized for a nondomestic ceding company if it is allowed by the ceding company's domiciliary state. A state insurance regulator might not view the NRRA as preempting a state regulator's determination that an unauthorized reinsurer must obtain a license or that a statute prohibits Trisura US from engaging in a fronting business. However, such a determination or a conflict between state law and the NRRA could cause regulatory uncertainty about Trisura US's fronting business, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

## **Dependence on Capacity Providers and MGAs**

Trisura US intends to offer fronting arrangements to Capacity Providers that want to access specific U.S. specialty insurance business. Capacity Providers may be under common control with a particular MGA or may be independent. An independent Capacity Provider may reinsure a single book or multiple books with various MGAs. A single MGA may control a single book with one Capacity Provider or multiple books with various Capacity Providers.

Other specialty insurance companies may compete with Trisura US for this business. These Capacity Providers and MGAs may choose to enter into fronting arrangements with Trisura US's competitors or MGAs, or Capacity Providers may terminate fronting arrangements with Trisura US if they no longer need access to its fronting capacity or for other reasons.

A significant decrease in business from one, or the entire loss of, Trisura US's largest Capacity Provider or MGA or several of its other large Capacity Providers or MGAs would cause it to lose premiums and require Trisura US to seek additional Capacity Providers or MGAs or to replace the lost premiums. In the event that Trisura US is unable to do so, our business, financial condition, results of operations and prospects could be materially and adversely affected.

## **Failure of Capacity Providers or MGAs to Properly Market, Underwrite or Administer Policies**

The marketing, underwriting, claims administration and other administration of policies will partially be the responsibility of Trisura US's MGAs. Any failure by them to properly handle these functions could result in liability to Trisura US. Even though they may be required to compensate Trisura US for any such liability, there are risks that any such failures could create regulatory or reputational issues for Trisura US or that they do not pay Trisura US because they become insolvent or otherwise, either of which could materially and adversely affect our business, financial condition, results of operations and prospects.

## **U.S. Expansion**

Our future growth depends, to a considerable extent, on our expansion efforts in the U.S. Our current operations are based largely in Canada and we have limited experience operating in the U.S. We are in the process of seeking regulatory approval for Trisura US to operate as a specialty insurance business in the U.S. and, if that approval is obtained, we anticipate incorporating Trisura US and then applying for a rating from



A.M. Best. We have limited experience with regulatory environments and market practices outside of Canada, and cannot guarantee that we will be able to satisfy all regulatory and other requirements necessary to launch and operate our business outside of Canada or that we will be able to penetrate or successfully operate in any market outside of Canada. The U.S. specialty insurance market has different competitive dynamics than the Canadian market and therefore presents distinct and substantial risks. Our Company will face competition from significantly larger companies in the U.S. The expansion into the U.S. specialty insurance market may also present distribution challenges that are different or more severe than those we currently face. If the expansion or growth into the U.S. does not develop as currently anticipated, or if Trisura US is unable to penetrate the U.S. specialty insurance market successfully, such result could have a material adverse effect on our Company's business, financial condition and performance.

### **Reinsurance Arrangements with a Limited Number of Reinsurers**

Our Company's reinsurance arrangements are with a limited number of reinsurers. This reinsurance may cause an adverse effect on our Company's results of operations if one or more of these reinsurers are unable to meet their financial obligations and/or cease their operations. Although substantially all of our reinsurers were rated "A –" or higher by A.M. Best at the time of entering into the reinsurance arrangements, these ratings are subject to change and may be lowered without notice.

Although reinsurance makes the assuming reinsurers liable to our Company to the extent of the risk each reinsurer assumes, our Company is not relieved of our primary liability to our insureds as the direct insurer. As a result, our Company bears credit risk with respect to our third party reinsurers. Our Company cannot guarantee that our reinsurers will pay all reinsurance claims on a timely basis or at all. We evaluate each reinsurance claim based on the facts of the case, historical experience with the reinsurer on similar claims, and existing law and include in our reserve for uncollectible reinsurance any amounts deemed uncollectible. The inability to collect amounts due to our Company under reinsurance arrangements would reduce our net income and cash flow.

### **Future Acquisitions**

A key part of our Company's growth strategy involves seeking acquisition opportunities. We are not currently pursuing any strategic acquisitions and we will face competition for acquisitions, including from our competitors, many of whom will have greater financial resources than us. There can be no assurance that we will complete acquisitions. In addition, future acquisitions will likely involve some or all of the following risks, which could materially and adversely affect our Company's business, financial condition or results of operations: the difficulty of integrating the acquired operations and personnel into our current operations; potential disruption of our current operations; diversion of resources, including our Company's management's time and attention; the difficulty of managing the growth of a larger organization; the risk of entering markets in which we have little experience; the risk of becoming involved in labour, commercial or regulatory disputes or litigation related to the new enterprise; the risk of environmental or other liabilities associated with the acquired business; and the risk of a change of control resulting from an acquisition triggering rights of third parties or government agencies under contracts with, or authorizations held by, the operating business being acquired. It is possible that due diligence investigations into businesses being acquired may fail to uncover all material risks, or to identify a change of control trigger in a material contract or authorization, or that a contractual counterparty or government agency may take a different view on the interpretation of such a provision to that taken by us, thereby resulting in a dispute.

### **Reliance on Brookfield Asset Management**

Our Company will continue to rely on Brookfield Asset Management following completion of the spin-off. Brookfield Asset Management intends to contribute the assistance of certain of its employees through a transition period by providing two directors to the Board and the CFO of Trisura Group. Our Company will continue to receive information technology, internal audit and investment management services from Brookfield Asset Management and an entity under common control with Brookfield Asset Management for a transition period. The two directors and the CFO will be able to exercise substantial influence over our Company. Any failure on their part to effectively manage our current operations or to implement our strategy or a failure by Brookfield Asset Management to continue to provide these services could have a material adverse effect on our

business, financial condition and results of operations. The removal of Brookfield Asset Management as our sole shareholder could have a material adverse effect on our Company's business and financial condition.

### **Reliance on Key Personnel**

The success of our Company depends upon the personal efforts of our senior management. The loss of the services of such key personnel could have a material adverse effect on the operations of our Company. In addition, our Company's continued growth depends on our ability to attract and retain skilled management and employees and the ability of our key personnel to manage our Company's growth. Recruiting and retaining skilled personnel is costly and highly competitive. If our Company fails to retain, hire, train and integrate qualified employees and contractors, we may not be able to maintain and expand our business. Certain key personnel are not bound by non-competition covenants. If such personnel depart our Company and subsequently compete with our Company or determine to devote significantly more time to other business interests, such activities could have a material adverse effect on our Company's business, financial condition and performance.

### **Inability to Generate Necessary Amount of Cash to Service Existing Debt**

Trisura Guarantee's ability to pay principal and interest on the TG Credit Facility (as defined below) will depend on its future financial performance. Trisura Guarantee's ability to generate cash will depend on many factors, some of which may be beyond its control, including general economic, financial and regulatory conditions. If Trisura Guarantee cannot generate enough cash flow in the future to service its debt or cannot renew the TG Credit Facility on its existing terms, it may need to refinance its debt, obtain additional financing (on terms that may be less favourable than existing financing terms) or sell assets. Trisura Guarantee might not be able to implement any of these strategies on satisfactory terms or on a timely basis, if at all. If Trisura Guarantee is unable to meet its debt service obligations or comply with its covenants, a default under the TG Credit Facility would result.

### **Risks Associated with Investment Portfolio**

Investment returns are an important part of our Company's overall profitability as our Company's operating results depend in part on the performance of our investment portfolio. Our Company's investment portfolio may include bonds and other debt instruments, common stocks, preferred stocks, equity-related securities and derivative instruments. Accordingly, fluctuations in the fixed income or equity markets could have a material and adverse effect on our Company's business, financial condition and/or results of operation. Investment income is derived from interest and dividends, together with net gains or losses on investments. The portion derived from net gains or losses on investments generally fluctuates from year to year and is typically a less predictable source of investment income than interest and dividends, particularly in the short-term. The return on the portfolio and the risks associated with the investments are affected by the asset mix, which can change materially depending on market conditions.

The ability of our Company to achieve our investment objectives is affected by general economic conditions that are beyond our control. General economic conditions can adversely affect the markets for interest rate sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed income securities. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our Company's control. General economic conditions, stock market conditions and many other factors can also adversely affect the equity markets and, consequently, the value of the equities owned. In addition, defaults by third parties who fail to pay or perform on their obligations could reduce our Company's investment income and net gains on investment or result in investment losses.

### **Interest Rates**

Our Company is exposed to risk arising from fluctuations in interest rates on our bond portfolio, interest rate sensitive securities and other debt instruments. We may incur further indebtedness in the future that also bears interest at a variable rate or we may be required to refinance our debt at higher rates. There can be no

assurance that we will hedge interest rate exposure effectively or at all in the future. Accordingly, increases in interest rates above that which we anticipate based upon historical trends would adversely affect our cash flows and our Company's financial performance.

### **Liquidity Not Assured**

We manage our cash and liquid assets in an effort to ensure there is sufficient cash to meet all of our Company's financial obligations as they fall due. As regulated insurance companies, our operating subsidiaries are required to maintain an asset base comprised of liquid securities that can be used to satisfy their ongoing commitments. There can be no assurances that our cash on hand and liquid assets will be sufficient to meet any future obligations that may come due.

### **Future Capital Requirements**

Our Company's future capital requirements will depend upon many factors, including the development of our U.S. business, expansion of our sales and marketing efforts and the status of competition. There can be no assurance that financing will be available to our Company on acceptable terms, or at all. If additional funds are raised by issuing equity securities, further dilution to our existing shareholders will result. If adequate funds are not available, our Company may be required to delay, scale back or eliminate our programs. PVI has indicated that it is willing to provide financial support, if necessary; however, there is no guarantee that such support will be provided. An inability to obtain financing or similar financial support could have a material adverse effect on our Company's business, financial condition and results of operations.

### **Currency**

Currency risk is the possibility that variations in exchange rates may produce an unintended effect on earnings and equity when measured in our functional currency, the Canadian dollar. Our Company will have significant exposures to (i) the U.S. dollar resulting from the operations of Trisura US and Trisura International in the United States and Trisura International reporting its financial statements in U.S. dollars and (ii) the Euro and the British pound resulting from Trisura International's operations in Europe and its previous operations in the United Kingdom. Trisura Guarantee has limited exposure to currency risk as nearly all of its investments are located in Canada and denominated in Canadian dollars, the exception being small holdings in U.S. equities that are limited to 3.0% of the market value of its investment portfolio.

### **Risks Associated with the Repurchase Provisions in the TG Holdco Unanimous Shareholder Agreement**

We own 60.0% of the shares of TG Holdco, and are a party to the third amended and restated unanimous shareholder agreement of TG Holdco to be entered into in connection with the spin-off between TG Holdco, Trisura Group and the TG Management Group (the "**TG Holdco Unanimous Shareholder Agreement**"). The TG Management Group owns the remainder of the shares of TG Holdco. Under the terms of the TG Holdco Unanimous Shareholder Agreement, if certain actions are taken by Trisura Group or TG Holdco or any of its subsidiaries, the TG Management Group has the right to sell all of their shares of TG Holdco to Trisura Group. As a result of the spin-off, the TG Management Group will have the right to exercise this put during the one-month period following the 18-month anniversary of the spin-off. In other circumstances, including retirement or the termination of employment of a member of the TG Management Group, TG Holdco will be required to purchase all of the shares of TG Holdco held by such member of the TG Management Group and Trisura Group will be required, at TG Holdco's request, to lend to TG Holdco some or all of the funds required to repurchase these shares. If Trisura Group is obligated to make, directly or indirectly through TG Holdco, any significant payments to members of the TG Management Group under the TG Holdco Unanimous Shareholder Agreement, then there could be an adverse effect on our financial condition and cash flows. The repurchase limit included in the TG Holdco Unanimous Shareholder Agreement may not be effective in mitigating this risk. See "TG Holdco — TG Holdco Unanimous Shareholder Agreement" for further details.

### **Absence of a Prior Public Market**

Prior to the spin-off, there has not been a market for the Common Shares. We cannot predict the price at which the Common Shares will trade upon completion of the spin-off and there can be no assurance that an active and liquid trading market will develop after the spin-off or, if developed, that such a market will be sustained. In addition, if an active public market does not develop or is not maintained, holders may have difficulty selling their Common Shares.

### **Sales of Common Shares Shortly Following Completion of the Spin-Off**

Because we do not intend to apply to list the Common Shares on a U.S. stock exchange, no active or liquid market for the Common Shares is expected to develop in the U.S. following completion of the spin-off. U.S. Brookfield Shareholders may therefore be inclined to sell all or a portion of their Common Shares shortly following completion of the spin-off. If a substantial number of such holders sell their Common Shares shortly following completion of the spin-off, the market price of the Common Shares could fall and such declines could be material. Furthermore, the perception among investors that such sales will occur could also produce this effect.

### **Potential Volatility of Common Share Price**

The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our Company's control, including, but not limited to, the following: (i) actual or anticipated fluctuations in our Company's quarterly results of operations; (ii) changes in estimates of our Company's future financial performance; (iii) recommendations by securities research analysts; (iv) changes in the economic performance or market valuations of other issuers that investors deem comparable to our Company; (v) the addition or departure of our executive officers and other key personnel; (vi) sales or anticipated sales of additional Common Shares; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our Company or our competitors; and (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets.

Financial markets have in the past experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of public entities and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of the Common Shares may decline even if our Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of our Company's governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to satisfy such criteria may result in limited or no investment in the Common Shares by those institutions, which could materially adversely affect the trading price of the Common Shares. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, our Company's operations and the trading price of the Common Shares may be materially adversely effected.

### **Payment of Dividends**

Our Company currently intends to retain any future earnings to fund the development and growth of our business and we do not currently anticipate paying dividends on the Common Shares. Any determination to pay dividends in the future will be at the discretion of the Board and will depend on many factors, including our Company's financial condition, current and anticipated cash requirements, contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the Board may deem relevant.

### **Future Sales of Substantial Amount of Share Capital**

The articles of incorporation of Trisura Group provide that Trisura Group may issue an unlimited number of Common Shares, an unlimited number of non-voting shares and an unlimited number of preference shares

(issuable in series), subject to the rules of any stock exchange on which Trisura Group's securities may be listed from time to time. If Trisura Group was to issue any additional Common Shares, non-voting shares or preference shares, or such other classes of authorized shares that are convertible or exchangeable for Common Shares, the percentage ownership of existing holders may be reduced and diluted. We cannot foresee the terms and conditions of any future offerings of our securities nor the effect of such offerings on the market price of the Common Shares. Any issuance of a significant percentage of Trisura Group's securities, or the perception that such issuances may occur, could have a material adverse effect on the market price of the Common Shares and limit our ability to fund our operations through capital raising transactions in the future.

Trisura Group has no present plans to issue any non-voting shares or preference shares. However, the Board has the authority to issue non-voting shares and preference shares and determine the price, designation, rights (including voting and dividend rights), preferences, privileges, restrictions and conditions of the preference shares, and to determine to whom non-voting and preference shares shall be issued.

### **Financial Reporting and Other Public Company Requirements**

Upon receiving a final receipt for this prospectus, Trisura Group will become subject to reporting and other obligations under applicable Canadian securities laws and the rules of any stock exchange on which the Common Shares are then-listed. The applicable securities legislation requires that Trisura Group file annual, quarterly and event-driven reports with respect to our business and financial condition and operations, and requires that Trisura Group maintain effective disclosure controls and procedures and internal control over financial reporting. These reporting and other obligations will place significant demands on our management, administrative, operational and accounting resources. In order to meet such requirements, we will, among other things, establish systems, implement financial and management controls, reporting systems and procedures and, if necessary, hire qualified accounting and finance staff. However, if we are unable to accomplish any such necessary objectives in a timely and effective manner, our ability to comply with our financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause us to fail to satisfy our reporting obligations or result in material misstatements in our financial statements. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be materially adversely effected which could also cause investors to lose confidence in our reported financial information, which could result in a reduction in the trading price of the Common Shares.

We do not expect that our Company's disclosure controls and procedures and internal controls over financial reporting will prevent all error or fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

These activities may divert management's attention from other business concerns, which could have a material adverse effect on our Company's business, financial condition, financial performance and cash flows. We expect to incur significant additional annual expenses related to these steps and, among other things, additional directors' and officers' liability insurance, director fees, reporting requirements of the applicable Canadian securities regulatory authorities and other regulators, transfer agent fees, hiring additional accounting, legal and administrative personnel, increased auditing and legal fees and similar expenses.

### **Forward-Looking Information**

The forward-looking information relating to, among other things, future results, performance, achievements, prospects or opportunities of our Company or the Canadian, U.S. or international markets included in this prospectus (including the information contained under "Consolidated Capitalization",

“Business of Trisura Group”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura International”) are based on opinions, assumptions and estimates made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. Actual results of our Company in the future may vary significantly from the historical and estimated results and those variations may be material. There is no representation by our Company that actual results achieved by our Company in the future will be the same, in whole or in part as those included in this prospectus. See “Special Note Regarding Forward-Looking Information.”

### **Small Company Liquidity Risk**

Trisura Group is a relatively small company in terms of market capitalization. As such, the share price of the Common Shares may be more volatile than the shares of larger, more established companies. The Common Shares may trade less frequently and in smaller volume than shares of large companies. As a result, you may find it difficult to buy or sell the Common Shares in a timely fashion relative to buying or selling shares of large companies on the secondary market. We may also have relatively few Common Shares outstanding at any given time, so a sale or purchase of Common Shares may have a greater impact on the price of the Common Shares.

### **Impact of Securities Analysts’ Research or Reports**

The trading market for the Common Shares will rely in part on the research and reports that industry or financial analysts publish about our Company or our Company’s business. We do not currently have and may never obtain research coverage by industry or financial analysts. If no or few analysts commence coverage of our Company, the trading price of the Common Shares may decrease. Even if we do obtain analyst coverage, if one or more of the analysts covering our Company’s business downgrade their evaluations of the price of the Common Shares, then the price of the Common Shares could decline. If one or more of these analysts cease to cover the Common Shares, we could lose visibility in the market for the Common Shares, which in turn could cause the price of the Common Shares to decline.

### **Potential U.S. Tax Liability for U.S. Holders**

For U.S. federal income tax purposes, our Company and Brookfield Asset Management intend to treat the special dividend pursuant to the spin-off as a tax-free distribution to U.S. Holders of Class A Shares or Class B Shares. However, this position is not free from doubt, and there can be no assurance that the Internal Revenue Service (the “IRS”) will not successfully assert that the special dividend is a taxable distribution, and that a court will not sustain such assertion, which could result in U.S. Holders incurring tax upon the distribution of Common Shares pursuant to the spin-off. See “Certain United States Federal Income Tax Considerations” for more information regarding the potential U.S. federal income tax consequences of the spin-off, including the consequences if the special dividend were treated as a taxable distribution for U.S. federal income tax purposes.

### **Financial Instruments**

For a discussion of other risks relating to financial instruments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee — Risks Relating to Financial Instruments” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura International — Risks Relating to Financial Instruments”.

### **Unpredictable Catastrophic Events**

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. The frequency and intensity of natural catastrophic events

may continue to increase as a result of climate change, and we may incur greater than anticipated losses in respect of such events in the future. Our Company's ability to write new business also could be affected and we may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. Our Company's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. If our Company's business continuity plans cannot be put into action or do not take such events into account, losses may further increase.

### **Dependence on Technology**

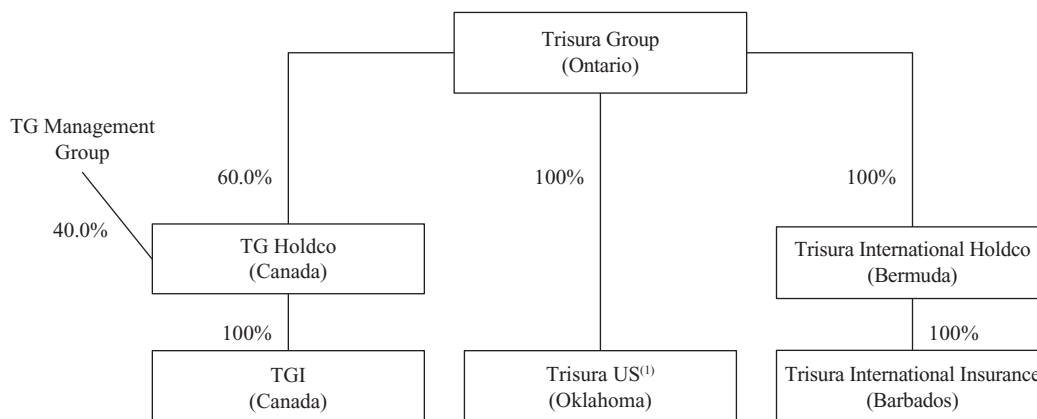
Our Company is heavily dependent on systems technology to process large volumes of transactions and our business would suffer if the technology employed is inadequate or inappropriate to support current and future business needs and objectives. There is no assurance that we will be able to respond to technology failures effectively and with minimal disruption.

### **Cyber-Security**

Our information technology systems may be subject to cyber terrorism intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyber-attacks and other means, and could originate from a wide variety of sources, including internal or unknown third parties. If our information systems are compromised, do not operate or are disabled, this could have a material adverse effect on our business prospects, financial condition, results of operations and cash flow.

## CORPORATE STRUCTURE

Trisura Group was incorporated under the *Business Corporations Act* (Ontario) (“**OBCA**”) in January 2017. Its head and registered office is located at 333 Bay Street, Suite 1610, Box 22, Toronto, Ontario, M5H 2R2. As illustrated in the following organizational chart, Trisura Group has three principal regulated subsidiaries: TGI, Trisura US<sup>(1)</sup> and Trisura International Insurance. TGI is a wholly-owned direct subsidiary of TG Holdco. We have a 60.0% ownership interest in TG Holdco, while the remaining 40.0% ownership interest is held by the TG Management Group. Trisura US<sup>(1)</sup> is a wholly-owned subsidiary of Trisura Group. Trisura International Insurance is a wholly-owned direct subsidiary of Trisura International Holdco, which is a wholly-owned direct subsidiary of Trisura Group.



(1) Trisura US is not yet incorporated. We are in the process of seeking regulatory approval to launch Trisura US as a specialty insurance business in the U.S. and we anticipate incorporating Trisura US following receipt of regulatory approval.

Concurrently with the completion of the spin-off, Trisura Group will enter into the TG Holdco Unanimous Shareholder Agreement with the TG Management Group, which will govern the conduct of the business and affairs of Trisura Guarantee. See “TG Holdco — TG Holdco Unanimous Shareholder Agreement”.

## THE SPIN-OFF

### Background to and Purpose of the Spin-Off

Brookfield Asset Management is a leading global alternative asset manager, focused on investing in long-life, high quality assets across real estate, infrastructure, renewable power and private equity alongside institutional clients. Its strategy is to raise public and private capital to deploy on a value basis towards owning and operating businesses that form the backbone of the global economy, supporting the endeavors of individuals, corporations and governments worldwide.

In 2006, Brookfield Asset Management capitalized Trisura Guarantee, holding ownership through its private equity group. Trisura Guarantee is a niche property and casualty (“**P&C**”) insurance company with a primary focus on the Canadian surety, professional and executive liability and warranty markets. Trisura Guarantee has been a successful investment, with a strong partnership between its management team and Brookfield Asset Management. Trisura International, founded by Brookfield Asset Management in 2001, has provided specialty insurance and reinsurance products to the global insurance and reinsurance markets since its inception in 2001. Trisura International ceased writing new business at the end of 2008. Trisura US is expected to utilize a fee-based business model focused on specialty non-admitted insurance premiums in the U.S. Together, these businesses write specialty insurance policies that are not otherwise easily secured by companies, making them interesting businesses with potential for growth. Collectively, these businesses comprise Brookfield Asset Management’s specialty insurance entities, a small component of Brookfield Asset Management’s overall asset management franchise.

When Brookfield Asset Management launched Brookfield Business Partners L.P. (“**Brookfield Business Partners**”) in the first half of 2016 as a publicly traded entity holding certain businesses within Brookfield Asset



Management's private equity group, consideration was given to whether Brookfield Asset Management's specialty insurance businesses would be suitable for inclusion. Given Brookfield Business Partners' broader corporate objective to establish itself as a business services and industrial company focused on owning and operating businesses that benefit from barriers to entry and/or low production costs, Brookfield Asset Management determined that specialty insurance did not have the proper attributes to be a core component of this new partnership. Following a strategic review, Brookfield Asset Management further determined that specialty insurance no longer fit with its own long-term plans either and these businesses would not receive the financial and other resources at Brookfield Asset Management necessary to support future growth.

Brookfield Asset Management believes, however, that these specialty insurance businesses could thrive if they had greater access to capital to deploy internationally towards growth opportunities and received more shareholder attention in the pursuit of strategic objectives. Rather than pursue a sales process that Brookfield Asset Management believes would have been disruptive to these businesses and unlikely to surface full value, Brookfield Asset Management has determined to create a new specialty insurance company for its shareholders to own as a standalone public company. As such, Trisura Group was formed in early 2017 to combine Brookfield Asset Management's investments in specialty insurance and be prepared for spin-off to you.

As the spin-off of 100% of a business is the first of its kind for Brookfield Asset Management, certain steps have been taken to help support the success of our Company. First, Brookfield Asset Management intends to contribute the assistance of certain of its employees through a transition period by providing two directors to the Board and by providing the CFO of Trisura Group. See "Directors and Executive Officers — Directors and Executive Officers of our Company" and "Executive Compensation — Management Services Agreement". This assistance is expected to extend until the first annual general meeting of the shareholders of Trisura Group. Second, in advance of the spin-off, and in anticipation of our U.S. initiative, Brookfield Asset Management will subscribe for additional Common Shares in an amount of \$41.1 million. Third, Brookfield Asset Management has consulted with PVI, the largest shareholder of Trisura Group immediately following completion of the spin-off with Common Share ownership of approximately 9.0%, to ensure that PVI is supportive of the initiative. PVI is a partnership listed on the TSX Venture Exchange whose limited partnership units are owned approximately 49.0% by Partners Limited and approximately 40.0% by the shareholders of Partners Limited, which include, directly and indirectly, current directors and senior executives of Brookfield Asset Management and its affiliates, in addition to a limited number of former senior executives. PVI has confirmed that it is willing to provide financial support to our Company, if necessary, and may increase its ownership interest over time.

In preparation for the spin-off, Brookfield Asset Management believes that it has positioned our Company as a profitable and growing specialty insurance company with an industry-leading underwriting record. Our Company benefits from being diversified across multiple business lines and international platforms. Furthermore, combining specialty insurance platforms has provided Trisura Guarantee with access to incremental capital from Trisura International, a conservatively reserved entity with substantial liquidity.

In sum, the spin-off is intended to achieve the following objectives:

- Facilitate the exit of Brookfield Asset Management from the specialty insurance business so that our Company's businesses would no longer have to compete with other Brookfield Asset Management companies for capital and attention;
- Allow the management team of our Company to continue operating our business without the disruption or uncertainty associated with a sale process; and
- Provide our Company with access to public capital markets, thereby giving us the ability to finance growth or support capital requirements through future equity or debt issues.

### **Mechanics of the Spin-Off**

Brookfield Asset Management intends to make a special dividend of the Common Shares to holders of its Class A Shares and Class B Shares, pursuant to which holders of Class A Shares and Class B Shares will be entitled to receive one Common Share (less any Common Shares withheld to satisfy withholding tax obligations) for every 170 Class A Shares or Class B Shares held as of the Record Date of the special dividend.

Based on approximately 1.0 billion Class A Shares and Class B Shares that we expect to be outstanding on the Record Date for the spin-off, Brookfield Asset Management intends to make a special dividend of approximately 5,800,000 Common Shares of Trisura Group to holders of Class A Shares and Class B Shares.

Holders of Class A Shares or Class B Shares will not be required to pay for the Common Shares to be received upon completion of the spin-off or tender or surrender Class A Shares or Class B Shares or take any other action in connection with the spin-off. No vote of Brookfield Asset Management's shareholders will be required for the spin-off. If a holder owns Class A Shares or Class B Shares as of the close of business on the Record Date, a certificate reflecting the holder's ownership of the Common Shares will be mailed to the holder, or the holder's brokerage account will be credited for the Common Shares, on the Distribution Date. The number of Class A Shares and Class B Shares that a holder owns will not change as a result of the spin-off. Brookfield Asset Management's Class A Shares will continue to be traded on the NYSE under the symbol "BAM", on the TSX under the symbol "BAM.A" and on the NYSE Euronext under the symbol "BAMA".

No holder will be entitled to receive any fractional interests in the Common Shares. Holders who would otherwise be entitled to a fractional Common Share will receive a cash payment. Brookfield Asset Management will use the volume-weighted average of the trading price of the Common Shares for the five trading days immediately following the spin-off to determine the value of the Common Shares for the purpose of calculating the cash payable in lieu of any fractional interests.

Shareholders who acquire the Common Shares pursuant to the spin-off will be considered to have received a taxable dividend for Canadian federal income tax purposes in an amount equal to the fair market value of the gross amount of the Common Shares so received (as determined by reference to the five day volume-weighted average of the trading price of the Common Shares following the Distribution Date) plus the amount of any cash received in lieu of fractional Common Shares, without reduction for any tax withheld (including any Common Shares withheld to satisfy tax obligations). Non-Canadian resident shareholders will be subject to Canadian federal withholding tax at the rate of 25.0% on the amount of the special dividend, subject to reduction under terms of an applicable income tax treaty or convention.

To satisfy the withholding tax liabilities of non-Canadian registered shareholders of Brookfield Asset Management, Brookfield Asset Management will withhold a portion of the Common Shares otherwise distributable and a portion of any cash distribution in lieu of fractional Common Shares otherwise distributable. Brookfield Asset Management will purchase these withheld Common Shares at a price equal to the fair market value of the Common Shares determined by reference to the five day volume-weighted average of the trading price of the Common Shares following the Distribution Date. The proceeds of this sale of the withheld Common Shares together with the amount of any cash withheld from any cash distribution in lieu of fractional Common Shares will be remitted to the Canadian federal government or the U.S. federal government (as applicable) in satisfaction of any withholding tax liabilities. For non-Canadian beneficial shareholders, these withholding tax obligations will be satisfied in the ordinary course through arrangements with their broker or other intermediary. See "Certain Canadian Federal Income Tax Considerations" and "Certain United States Federal Income Tax Considerations", which qualify in their entirety the foregoing discussion.

Neither Brookfield Asset Management nor Trisura Group has any obligation to distribute cash to pay any taxes owed by a shareholder as a result of the spin-off and neither Brookfield Asset Management nor Trisura Group has any intention to do so. Accordingly, a shareholder may need to satisfy any Canadian federal income tax or United States federal income tax liability resulting from the receipt of the Common Shares with cash from such shareholder's own funds or by selling all or a portion of the Common Shares received.

### **Approval of the Minister of Finance**

TGI is an insurance company incorporated under the *Insurance Companies Act* (Canada) (the "ICA"). The transfer of the controlling interest in TGI to Trisura Group requires the approval of the Minister of Finance (Canada) (the "Minister"), which was obtained on May 1, 2017. In determining whether or not to approve the transaction, Section 420 of the ICA required that the Minister take into account all matters that the Minister considered relevant to the application including, among other things, the nature and sufficiency of the financial resources of the controlling shareholder of TGI as a source of continuing financial support for TGI. In order to satisfy this requirement, the Minister and OSFI expect Trisura Group to maintain a prudent debt to capital ratio,

fulfill certain reporting and information requirements, and permit (and cause each of our subsidiaries to permit) the Superintendent of Financial Institutions (the “**Superintendent**”) to make such examinations and enquiries into our business and affairs as the Superintendent may reasonably consider necessary.

In particular, we have agreed to provide OSFI, on a quarterly basis, the calculation of our debt to total capital ratio and notify OSFI at least 15 days prior to any changes to that ratio or the methodology for calculating such ratio.

In addition, we will provide OSFI with other information on an ongoing basis, including our annual non-consolidated financial statements, notification of any changes to our external auditors or directors and of any financing arrangements or “substantial investments” (as defined in the ICA) proposed to be entered into by Trisura Group, plus any other information as may be reasonably requested by OSFI.

These commitments are expected to cease to apply if, at any time, Trisura Group no longer controls TGI.

### **Transaction Agreements**

Prior to the spin-off, we will acquire our operating subsidiaries from Brookfield Asset Management or its subsidiaries pursuant to securities purchase agreements, which will each contain representations and warranties and related indemnities to us from Brookfield Asset Management (or its subsidiaries, as applicable), including representations and warranties concerning: (i) organization and good standing; (ii) authorization, execution, delivery and enforceability of the agreement and all agreements executed in connection therewith; and (iii) title to the securities being transferred to us.

### **U.S. Securities Laws and Resale of Securities**

Brookfield Asset Management is a “foreign private issuer” as defined under the U.S. Exchange Act. Upon completion of the spin-off, Trisura Group is expected to also be a foreign private issuer. The Common Shares have not been and will not be registered under the U.S. Exchange Act.

#### *Issuance and Resale of Common Shares Under U.S. Securities Laws*

The issuance of the Common Shares to U.S. Brookfield Shareholders and the subsequent resale of the Common Shares held by or to U.S. holders will be subject to U.S. securities laws, including the U.S. Securities Act and applicable U.S. state securities laws. **The following discussion is a general overview of certain requirements of U.S. securities laws applicable to U.S. Brookfield Shareholders.**

**All U.S. Brookfield Shareholders are urged to consult with legal counsel to ensure that the resale of Common Shares issued to them under the spin-off complies with applicable securities laws and regulations.**

#### *Exemption from Registration Under the U.S. Securities Act*

SEC Staff Legal Bulletin No. 4 provides that the shares of a subsidiary spun off from a reporting company are not required to be registered under the U.S. Securities Act when the following five conditions are met: (i) the parent shareholders do not provide consideration for the spun-off shares; (ii) the spin-off is pro-rata to the parent shareholders; (iii) the parent provides adequate information about the spin-off and the subsidiary to its shareholders and to the trading markets; (iv) the parent has a valid business purpose for the spin-off; and (v) if the parent spins-off “restricted securities,” it has held those securities for at least two years. Brookfield Asset Management has structured the spin-off such that each of the conditions are satisfied by the spin-off or, in the case of the fifth condition, do not apply. You are not providing any consideration for receiving the Common Shares, and the issuance of the Common Shares is being conducted on a pro-rata basis to the holders of Class A Shares and Class B Shares. Brookfield Asset Management has a valid business purpose for the spin-off, as described under “— Background to and Purpose of the Spin-Off”. Finally, the information in this prospectus which in providing the information required under Canadian securities laws is also in substantial compliance with Regulation 14A under the U.S. Exchange Act and it is the intent that our Company will comply with the provisions of SEC Rule 12g3-2(b) under the U.S. Exchange Act so that the Common Shares will also be exempt from registration under the U.S. Exchange Act. As a result, pro-rata distribution of the Common Shares to the holders of Class A Shares and Class B Shares pursuant to the spin-off is not an “offer to sell” or a “disposition

for value” within the meaning of Section 2(3) of the U.S. Securities Act and the provisions of SEC Staff Legal Bulletin No. 4 regarding spin-offs, and consequently the Common Shares have not and will not be registered under the U.S. Securities Act or the securities laws of any state of the United States.

#### ***Resale of Common Shares within the United States after Completion of the Spin-Off***

The following discussion does not address the Canadian securities laws that will apply to the issue or resale of Common Shares to U.S. holders within Canada. U.S. holders of Common Shares reselling their securities in Canada must comply with Canadian securities laws.

The Common Shares to be received by you pursuant to the spin-off will be freely transferable under U.S. federal securities laws except by persons who are “affiliates” (as such term is understood under U.S. securities laws) of Trisura Group after the Distribution Date or were “affiliates” of Trisura Group within 90 days prior to the date of any proposed resale. Persons who may be deemed to be “affiliates” of an issuer include individuals or entities that control, are controlled by, or are under common control with, the issuer, whether through the ownership of voting securities, by contract, or otherwise, and generally include executive officers and directors of the issuer as well as principal shareholders of the issuer. Any resale of such Common Shares by such an affiliate (or former affiliate) may be subject to the registration requirements of the U.S. Securities Act, absent an exemption therefrom.

Such affiliates (and former affiliates) may resell Common Shares pursuant to Rule 144, if available. In addition, subject to certain limitations, any such affiliates (and former affiliates) who is an affiliate (or former affiliate) solely by virtue of being an executive officer or director of Trisura Group may resell such Common Shares outside the United States without registration under the U.S. Securities Act pursuant to Regulation S under the U.S. Securities Act.

#### ***Resales by Affiliates***

In general, under Rule 144, persons who are, or are selling for the account of, affiliates of Trisura Group after the spin-off will be entitled to sell in the United States, during any three-month period, a portion of the Common Shares that they receive in connection with the spin-off, provided that the number of such Common Shares sold does not exceed the certain volume restrictions and subject to specified restrictions on manner of sale, notice requirements, aggregation rules and the availability of current public information about our Company.

Subject to certain limitations, if at the Distribution Date Trisura Group is a “foreign private issuer” (as defined in the U.S. Exchange Act), persons who are affiliates of Trisura Group after the Distribution Date, or were affiliates of Trisura Group within 90 days prior to the date of the proposed resale, may be permitted to immediately resell pursuant to Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act, as applicable.

As a practical matter, the availability of Regulation S under the U.S. Securities Act for resales of the Common Shares will also depend on whether we maintain a listing for such securities on a qualified foreign stock exchange.

### **USE OF PROCEEDS**

No consideration will be paid for the Common Shares distributed in the spin-off and accordingly the spin-off will not generate any proceeds.

### **LISTING OF THE COMMON SHARES OF TRISURA GROUP**

The TSX has conditionally approved the listing of the Common Shares under the symbol “TSU”. Listing is subject to our Company fulfilling all of the requirements of the TSX on or before July 19, 2017.

## DIVIDEND POLICY

The Board may declare dividends at its discretion, but does not anticipate paying dividends on the Common Shares in the near future.

## CONSOLIDATED CAPITALIZATION

The following table sets forth our cash and capitalization as of April 30, 2017 on an actual basis and on a pro forma basis to give effect to the spin-off as well as the other transactions referred to elsewhere in this prospectus, as though they had occurred on December 31, 2016.

This information should be read in conjunction with “Selected Pro Forma Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura International”.

(in \$ thousands)	<u>Prior to spin-off</u> <u>As at April 30, 2017</u>	<u>Pro forma</u> <u>As at December 31, 2016</u>
Cash and cash equivalents . . . . .	\$ 1	\$163,197
Borrowings . . . . .	—	34,100
Minority interests in subsidiaries <sup>(1)</sup> . . . . .	—	16,008
Shareholders’ equity of Trisura Group <sup>(2)(3)</sup> . . . . .	1	112,519
<b>Total Capitalization</b> . . . . .	<u>\$ 1</u>	<u>\$162,627</u>

- (1) Minority interests in subsidiaries represents the fair value of TG Management Group’s interests in TG Holdco as at December 31, 2016. See “TG Holdco — TG Holdco Unanimous Shareholder Agreement”.
- (2) Shareholders’ equity of Trisura Group represents the consolidated shareholders’ equity based on the unaudited pro forma statement of financial position of Trisura Group as at December 31, 2016.
- (3) The amounts included in the table do not include any Common Shares issuable upon the exercise of options under the Share Option Plan (as defined below).

Our Company will be well capitalized following the spin-off and we expect to have sufficient liquidity to fund our operations for the foreseeable future. Liquidity sources for our Company will include: (i) existing liquidity sources; (ii) cash flow from operating activities; (iii) utilization of existing working capital balances; (iv) external debt financing; and (v) new capital through the issuance of additional share capital.

## PRIOR SALES

On January 27, 2017, Trisura Group issued 40 Common Shares to Brookfield Asset Management in connection with its formation for \$1,000.

## INDUSTRY OVERVIEW

The specialty insurance market offers products and services that are not written by most insurance companies. These products generally require focused underwriting knowledge and financial expertise compared to more broadly sold insurance products.

Although no standard definition for the specialty insurance market exists, some common examples of premiums written in specialty insurance include: nonstandard insurance, niche market segments (such as surety, error and omissions lines) and products that require tailored underwriting. Many insurance groups with a specialty focus have several different carriers and licenses, and allocate business between these carriers depending on market conditions and regulatory requirements. In general, specialty insurers focus on niche products that other carriers have not focused on, or are unable or unwilling to underwrite.

In contrast to the overall P&C market, which is divided almost evenly between personal and commercial lines, specialty writers are focused almost exclusively on commercial lines. Even within the commercial sector,

the business mix of the specialty writers varies significantly from that of the overall P&C industry. Specialty line writers have historically, and are expected to continue to, outperform the standard market. One of the main reasons for this is that specialty writers usually have more pricing and policy form flexibility than traditional market writers. Many risks covered by a specialty insurance policy are difficult to place. For this reason, specialty line writers generally have lower claims ratios than traditional insurance companies.

Distribution is largely the responsibility of insurance brokers and specialty MGAs that have a close knowledge of the coverages and exposures related to the specialty insurance market. In the U.S., new insurers may avoid the time and expense of obtaining licenses in every state where they want to write business and establish a retail distribution network by accessing the market through wholesale brokers. In Canada, to operate in any insurance market, including specialty insurance, most companies are regulated federally.

## BUSINESS OF TRISURA GROUP

### Overview

Our Company is an international specialty insurance provider operating in the surety, risk solutions, corporate insurance and reinsurance niche segments of the market. TGI has an “A –” A.M. Best rating and Trisura US intends to apply to A.M. Best for a rating prior to commencing writing business. TGI started writing business in Canada in 2006 and has a long track record of profitable operations. Trisura International Insurance, our international operating subsidiary, has operated as a reinsurance company for almost 15 years.

### Business Lines

We operate through the following four business lines: surety, risk solutions, corporate insurance, and reinsurance. During 2016, substantially all of our premiums were written by Trisura Guarantee in the Canadian specialty insurance market. We intend to generate new business in the U.S. through Trisura US and begin writing new reinsurance business in the international reinsurance markets through Trisura International. The chart below provides a breakdown of our gross premiums written for the year ended December 31, 2016.

Gross Premiums Written (year ended December 31, 2016)<sup>(1)(2)</sup>



(1) Gross premiums written includes annual bonding facility fee income.

(2) No reinsurance premiums were written in 2016.

### Surety

Surety accounted for approximately 37.5% of our total gross premiums written for the year ended December 31, 2016. Surety bonds are used to guarantee contractors' completion of contractual obligations and the payment to suppliers and sub-contractors, and in a wide variety of other circumstances to guarantee an entity's compliance with legal or fiduciary obligations. The major products offered by the surety business are:

- Contract surety bonds, such as performance, labour and material payment bonds, primarily for the construction industry;
- Commercial surety bonds, such as license and permit, tax and excise, and fiduciary bonds, that are issued on behalf of commercial enterprises and professionals to governments, regulatory bodies or courts to guarantee compliance with legal or fiduciary obligations; and
- Developer surety bonds, comprising mainly bonds to secure real estate developers' legislated deposit and warranty obligations on residential projects.

Over 80.0% of surety revenue is derived from construction sector bonds, many of which are sourced from public sector infrastructure projects. The recent infrastructure proposals by federal, provincial, state and municipal governments measure in the hundreds of billions of dollars over the next decade, and many of these initiatives will require construction bonds. We believe we are well-positioned to compete effectively and to

participate actively in the upcoming infrastructure spend. The surety business experienced 9.8% annual gross premium growth in 2016, and an 83.0% combined ratio.

The table below presents financial highlights for the surety business for the periods indicated:

(in \$ thousands)	Year ended December 31,		
	2016	2015	2014
Gross premiums written . . . . .	\$43,751	\$39,861	\$38,368
Net premiums earned . . . . .	\$29,685	\$27,848	\$24,453
Fee income <sup>(1)</sup> . . . . .	\$ 3,336	\$ 3,133	\$ 2,328
Net underwriting income . . . . .	\$ 8,375	\$ 4,780	\$ 5,210
Ratios:			
Growth rate . . . . .	9.8%	3.9%	9.8%
Combined ratio . . . . .	83.0%	94.1%	88.2%

(1) Fee income represents annual charges to contractors in relation to bonding facilities.

### **Risk Solutions**

Risk solutions accounted for approximately 39.0% of our total gross premiums written for the year ended December 31, 2016. The risk solutions business caters to three different client types:

- Companies that offer warranties and administer warranty programs;
- Captive insurance companies, MGAs or reinsurers that require access to licensed insurance company paper; and
- Associations and groups seeking solutions for their members' unique insurance needs.

Risk solutions uses four different insurance structures, sometimes in combination, to address clients' insurance requirements:

- Surety structure, where we stand behind the obligations of a warranty program administrator. In the event of the administrator's financial failure, we will step in to ensure consumers' warranty coverages remain intact;
- Fronting structure, where we permit our licensed status to be used by captive insurance companies to issue insurance policies or warranties in exchange for a fronting fee;
- Retrospectively rated policy structure, where we assume the insurance risk on a program, and the actual claims experience is used to determine the ultimate premium. The initial premium incorporates a margin over the expected claims to provide for adverse results; and
- Risk transfer structure, where we assume the risk of the underlying warranty program completely, partially (co-insuring, or sharing, the risk with the administrator), or when losses exceed a specified amount (as in "excess of loss" insurance).

It is expected that premiums written and fee income from the future Trisura US operations will be included in risk solutions. The risk solutions business experienced 38.0% annual gross premium growth in 2016, and a 139.4% combined ratio. Risk solutions was our fastest growing business line in 2016 in terms of gross premium growth. Most of the programs in risk solutions currently involve automobile and consumer equipment warranties. Warranties may or may not be considered insurance, depending on the province or territory in which they are sold. If the warranty is considered insurance, then it is written as a Trisura Guarantee insurance policy and the total amount charged for the warranty is recognized as gross premium. Associated claims and commissions expense is then also recognized by Trisura Guarantee. If the warranty is not considered insurance, and is written on a surety basis, then the warranty is not written as an insurance policy and only the amount charged to the program administrator as a surety premium is recognized as gross premium.



Generally, a significant portion of the cost of a warranty is paid as commission to the end-seller, intermediaries and the program administrator, with much of the balance deposited to a custody account to cover the expected warranty claims. Top-up and pay-out arrangements are often in place for the custody accounts to ensure they remain appropriately funded based on ongoing claims experience. In some cases, the amount of commission received by the program administrator is set-off by claims experienced on the program, such that on a combined basis the total amount paid will not vary from month to month.

Risk solutions generally prices its business by targeting a sufficient residual premium to cover premium taxes payable, its operating costs and a capital-at-risk charge that will vary depending on the quality of the security provided under each program. Consequently, its net margins as a percentage of net premiums written, as well as its commissions expense, tend to be quite different from those of our other business lines. Further, the terms of the warranties can vary from six months to 120 months, and the revenue and costs involved are earned and expensed accordingly, generally on a straight-line basis.

The table below presents financial highlights for the risk solutions business for the periods indicated:

<u>(in \$ thousands)</u>	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross premiums written . . . . .	\$49,006	\$35,516	\$27,075
Net premiums earned . . . . .	\$19,121	\$15,558	\$11,880
Fee income <sup>(1)</sup> . . . . .	\$ 15	\$ 15	\$ 25
Net underwriting (loss) income . . . . .	\$(7,518)	\$ 2,080	\$(1,286)
Ratios:			
Growth rate . . . . .	38.0%	31.2%	31.7%
Combined ratio . . . . .	139.4%	86.7%	111.0%

(1) Fee income represents annual credit assessment charges on surety-structured accounts.

### ***Corporate Insurance***

Corporate insurance accounted for approximately 23.5% of our total gross premiums written for the year ended December 31, 2016. The major insurance products offered by this business line are:

- Directors’ and officers’ liability (“**D&O**”) insurance for public, private and non-profit enterprises. These are also referred to as executive liability products;
- Errors and omissions liability (“**E&O**”) insurance for both enterprises and professionals. These are also referred to as professional liability products and have tailored variations for the media and technology industries and professional practices;
- Business office package insurance for both enterprises and professionals. This product combines commercial general liability and property insurance into one comprehensive cover for small to medium-sized enterprises or practices; and
- Fidelity insurance for both commercial entities and financial institutions.

The corporate insurance business experienced 6.9% annual gross premium growth in 2016, with a 76.9% combined ratio. Given the diversity of the products offered, there are numerous influences on the overall growth of the corporate insurance business.

Our D&O book of business is approximately 41.8% commercial risks and 58.2% non-profit risks. In our non-profit portfolio, a large portion of this business is written on a multi-year policy term (typically three years). The entire premium for the three-year policy term is recognized at the inception of the policy and is earned over the three-year period. Due to this method of revenue recognition, the growth of the corporate insurance business can be inconsistent. For example, in 2014, growth was 4.0% due to a higher number of multi-year policies being underwritten in 2012. Likewise, the renewal of the 2012 multi-year policies in 2015 contributed to strong growth of 10.1% in 2015. The growth rate dropped to 4.6% in 2016 because of the renewal cycle.

The compound annual growth rate for the fidelity insurance product in Canada between 2014 and 2016 was negative 0.3%. Our growth rate lagged the industry at negative 1.1%, due to a combination of increased competition, disciplined underwriting and a view that fidelity rates were unsustainable.

The E&O insurance product line comprises approximately 45.1% of total writings within corporate insurance. The E&O insurance product is sold to both individual insureds and to groups of similar risks as an insurance program. These insurance programs constitute approximately 33.4% of the E&O insurance portfolio. There is often a long lead time on program business. In 2014, a number of new programs were written, resulting in a 17.0% growth rate of the E&O insurance product line. The addition of new E&O insurance program business continued through 2015 and in 2016.

The business office package product line has seen a steady rate of annual growth in the high teens since 2014. This growth is attributable to the increased focus over the past several years on cross-selling the business office package policy to all insureds within the corporate insurance business. Brokers are increasingly purchasing their specialty line coverages (D&O, E&O and fidelity insurance), and commercial general liability and property coverages from the same insurance company in order to reduce the time taken to secure insurance for their clients and to reduce potential coverage gaps (especially between the commercial general liability and E&O insurance products). Trisura Guarantee is focusing on providing a complete solution to remain competitive in the marketplace.

The table below presents financial highlights for the corporate insurance business for the periods indicated:

(in \$ thousands)	Year ended December 31,		
	2016	2015	2014
Gross premiums written . . . . .	\$29,533	\$27,633	\$25,223
Net premiums earned . . . . .	\$22,866	\$20,631	\$18,692
Net underwriting income . . . . .	\$ 5,277	\$ 2,807	\$ 3,941
Ratios:			
Growth rate . . . . .	6.9%	9.6%	11.0%
Combined ratio . . . . .	76.9%	86.4%	78.9%

**Reinsurance**

In the past, Trisura International wrote reinsurance through quota share (prospective), loss portfolio transfers (retrospective) and unique opportunities on an international, multi-line basis. Trisura International ceased writing new business at the end of 2008, and is managing its portfolio of in-force reinsurance contracts while considering opportunities in a difficult reinsurance market.

When it ceased writing new business at the end of 2008, Trisura International had total reserves of US\$1.2 billion and 128 in-force reinsurance contracts. The table below presents total reserves and numbers of in-force reinsurance contracts as at the dates indicated:

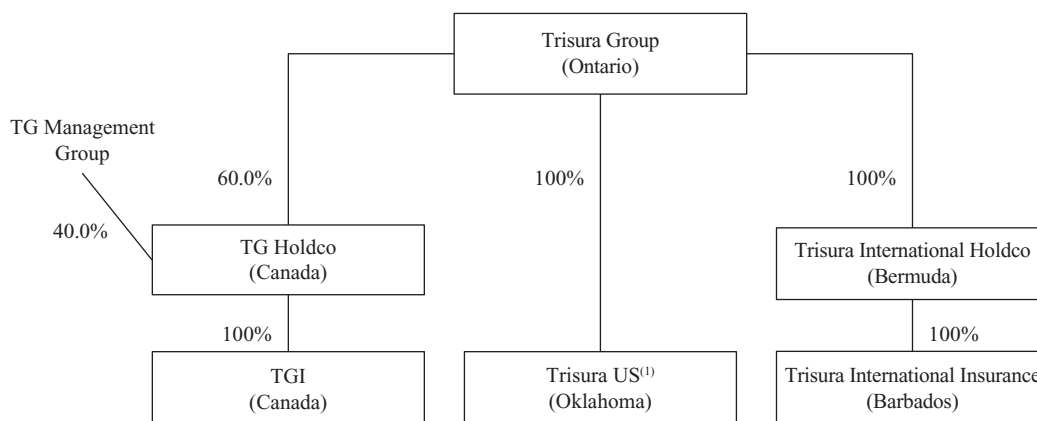
	As at December 31,		
	2016	2015	2014
Total reserves (in US\$ thousands) . . . . .	\$73,834	\$ 88,225	\$129,303
Number of in-force reinsurance contracts . . . . .	15	21	34

As at December 31, 2016, the largest in-force reinsurance contract is a life reinsurance contract with an Irish life assurance company (the “**GAO Life Reinsurance Contract**”). This contract has benefit reserves of US\$54.2 million (or 73.4% of total reserves) and provides protection to the reinsured in the event that its policyholders exercise guaranteed annuity options (“**GAOs**”) on a closed block of deferred pension policies in Ireland. All other remaining contracts are P&C reinsurance contracts providing cover, mainly in the U.S., for (i) workers’ compensation; (ii) auto (liability and property damage); (iii) professional indemnity; (iv) construction defect; (v) contractors’ liability; and (vi) general liability.

Following completion of the spin-off, Trisura International is expected to act as a multi-line reinsurer in the international reinsurance markets.

## Operations

Trisura Group has three principal regulated subsidiaries, as shown below:



- (1) Trisura US is not yet incorporated. We are in the process of seeking regulatory approval to launch Trisura US as a specialty insurance business in the U.S. and we anticipate incorporating Trisura US following receipt of regulatory approval.

TGI is our niche P&C insurance company with a primary focus on the Canadian surety, professional and executive liability and warranty markets. We anticipate incorporating Trisura US, a new U.S. subsidiary that will focus on the risk solutions segment. Trisura International Insurance is our Barbados regulated entity which focuses on the reinsurance segment of the international markets.

### Canadian Operations

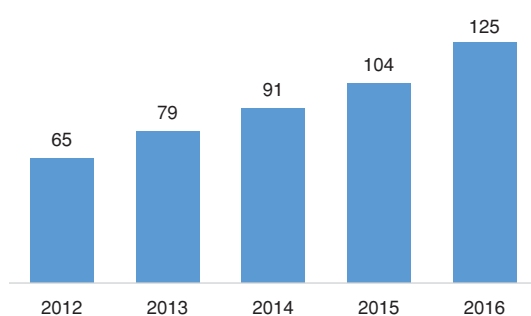
In Canada, we own 60.0% of Trisura Guarantee, which is a niche P&C insurance company with a primary focus on the Canadian surety, professional and executive liability and warranty markets. Trisura Guarantee is headquartered in Toronto and has branches in Vancouver, Calgary, Montreal, Quebec City and Halifax, and is licensed in all provinces and territories of Canada. Its distribution network comprises over 150 contracted insurance brokerage firms operating across Canada in all provinces and territories, and includes major international, national and regional firms as well as boutique, niche brokers with a focus on specialty lines. Since its incorporation in 2006, Trisura Guarantee's gross premiums written have grown to \$124.8 million on an annualized basis as of December 31, 2016. Trisura Guarantee has a small, but profitable, share of the total Canadian P&C insurance market, and is a significant participant in its targeted niche segments of the market. Trisura Guarantee currently generates substantially all of our written premiums.

The remaining 40.0% of Trisura Guarantee is owned by the TG Management Group. Members of the TG Management Group include the founding shareholders of Trisura Guarantee, having partnered with Brookfield Asset Management to start the business. The TG Holdco Unanimous Shareholder Agreement provides Trisura Group with drag-along rights. Conversely, the TG Management Group has a right of first offer, tag-along rights and, under certain circumstances, can require Trisura Group to purchase their shares pursuant to a pre-determined formula price. See "TG Holdco — TG Holdco Unanimous Shareholder Agreement" for further details.

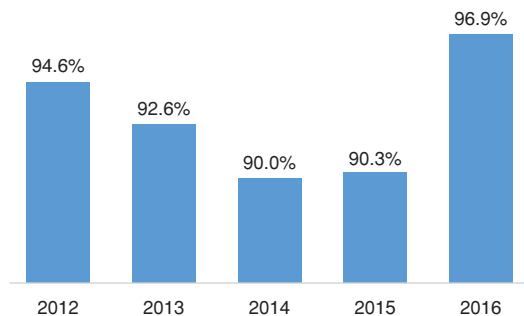
TGI has an "A—" A.M. Best rating, which allows it to write business with a wide variety of partners. We believe it has a strong history of premium and book value growth, and conservative underwriting practices; it is federally incorporated and regulated by OSFI and maintains a conservative MCT, as well as strong ROE.

The graphs below present financial highlights for TGI for the years ended, as indicated:

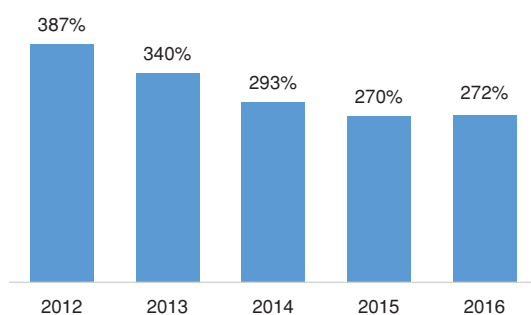
**Gross Premiums Written (in \$ millions)**



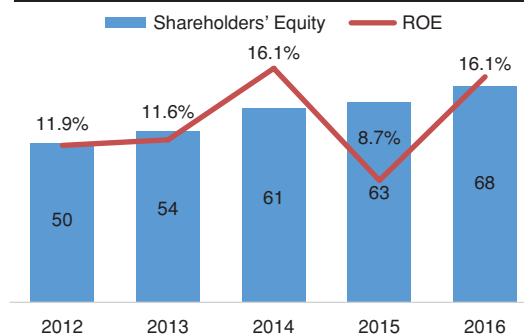
**Combined Ratio**



**MCT**



**Shareholders' Equity (in \$ millions) and ROE**



In September 2014, TGI acquired the contract and commercial surety business on a renewal-only basis of L'Unique General Insurance Inc. ("L'Unique") in all provinces except Quebec. The purchase provided Trisura Guarantee with approximately 400 contract and commercial surety accounts, most in the small to mid-size contractor space, and added several members of L'Unique's surety business to its operations in Calgary and Toronto.

In 2015, TGI entered the casualty insurance market with the opening of its new national casualty business in Toronto, with a focus on small to mid-size commercial general liability and commercial property insurance accounts, initially to expand the coverages offered to existing specialty insurance customers.

In 2016, Trisura Guarantee's risk solutions business broadened its product offerings with the introduction of accident and sickness and credit protection insurance, for which it is licensed in all provinces and territories of Canada.

***U.S. Operations***

We are in the process of seeking regulatory approval for the launch of Trisura US as a specialty insurance business under the guidance of an experienced management team. We anticipate incorporating Trisura US in Oklahoma following receipt of regulatory approval. The license application requirements include a minimum capital contribution and a business plan. We also anticipate seeking an A.M. Best rating for Trisura US following receipt of regulatory approval. Trisura US does not require an A.M. Best rating to begin writing new business; however, obtaining one will allow the company to write a broader range of business and grow its business more quickly.

We have retained Eileen Sweeney as a consultant to assist with the launch of Trisura US. Ms. Sweeney will be appointed as President of Trisura US following receipt of regulatory approval. The remainder of the management team of Trisura US will be recruited and hired once regulatory approval has been obtained. The launch costs will be borne by our Company.

Trisura US will initially focus on providing program services for MGAs, and intends to establish relationships with MGAs once its license is obtained. We intend to cede a significant portion of written business to well-capitalized reinsurance partners. We believe Trisura US will be positioned to aggregate business from MGAs and other partners and provide access to that business to the reinsurance market. We also believe that there is a lack of supply of capital arrangements for MGAs focused on specialty insurance in the U.S., and those that are offered do not meet their needs effectively. Furthermore, we believe there is an abundance of reinsurance capacity, allowing Trisura US to cede most of the risk on its policies to third party reinsurers on commercially favourable terms. Over time, we hope to expand into the surety and risk solutions segments of the U.S. market, building on the support and expertise of Trisura Guarantee's successful Canadian business.

In advance of the spin-off, and in anticipation of our U.S. initiative, Brookfield Asset Management will subscribe for additional Common Shares in an amount of \$41.1 million. This cash will be held by Trisura Group, until such time that it can be deployed into our new, U.S.-based subsidiary. The cash injection supports the financial strength of Trisura Group, benefitting all of its operating subsidiaries.

### ***International Operations***

Trisura International is a diversified specialty insurance company headquartered in Bermuda. Trisura International provides reinsurance and insurance products in a diversified range of P&C, life and health classes to the specialty insurance marketplace. It was founded by Brookfield Asset Management in 2001. In 2008, due to a declining reinsurance market, the worldwide financial crisis and Brookfield Asset Management's alternative uses for capital, Trisura International ceased writing new business and requested the withdrawal of its A.M. Best ratings. Subsequently, Trisura International has been actively managing its portfolio of in-force reinsurance contracts while looking for new opportunities in a difficult reinsurance market. Over time, Trisura International may write specialty classes of reinsurance and insurance in niche markets where it can apply its underwriting and/or structuring expertise. Although not required to commence writing new business, Trisura International may apply to A.M. Best to obtain an insurance strength rating in anticipation of broadening the range of its business in the international reinsurance markets.

It is anticipated that Trisura International will operate in the reinsurance markets in support of the operations of Trisura Guarantee and Trisura US. Specific growth opportunities in this role include (i) reinsuring the retained business of Trisura Guarantee and Trisura US; (ii) participating in the external reinsurance program of Trisura Guarantee; and (iii) reinsuring our Company's products in international markets where we do not have a local insurance license.

Trisura International currently has a license to write reinsurance business, and we do not anticipate any significant costs or steps for Trisura International to undertake prior to recommencing writing new business. Trisura International does not have any immediate plans to commence writing new business, but may do so when market opportunities are attractive.

### **Strategy and Competitive Strengths**

***Experienced Management.*** Our Company has a highly experienced and capable management team led by the President and Chief Executive Officer ("CEO") of Trisura Group, Greg Morrison. Senior management benefits from a diverse set of backgrounds, strong relationships, experience and reputation with rating agencies, insurance regulators and business partners. Our management benefits from an impressive history of underwriting and returns in Canada, a flexible platform at Trisura International and an attractive business model in the U.S.

***Strong Distribution Partners.*** We believe that Trisura Guarantee has maintained a consistent growth trajectory in Canada by being committed to the broker distribution channel to promote and sell its P&C insurance products. Trisura Guarantee focuses on maintaining excellent relationships with its broker network, a strong point of differentiation from its competitors. In the U.S., we intend to partner with a core base of established and well-managed program administrators that are known to senior management.

***Specialized and Profitable Business Focus.*** Our Company is focused on specialty insurance products with a dedicated team of experienced professionals. We plan to continue to build out our product offerings in other

niche segments of the market with suitably qualified underwriters. Our Company has operated for 10 years in the Canadian P&C insurance market and almost 15 years in the international specialty insurance market, establishing a conservative underwriting and investing track record, as well as cementing our Company as a leading provider of niche specialty insurance products to our clients and distribution partners.

***Fee-Based Business Model.*** Within risk solutions, our Company aggregates business from MGAs and provides access to that business to captive insurance companies or reinsurers that require licensed insurance company paper in exchange for a ceding fee. We maintain a small risk position, aligning our interests with distribution partners and reinsurers, while limiting underwriting risk. In this way, our business can generate attractive, stable fee income. As Trisura US's business grows, this business model will become a more significant component of our Company.

***Motivated and Committed Workforce.*** Our Company has a motivated, highly capable and experienced workforce. Staff are surveyed regularly to monitor their engagement and the scores have always been in the top decile of respondents. Trisura Guarantee has received several industry awards including being recognized by Aon as a Best Employer in Canada (in 2015 and 2016) and, most recently, by Insurance Business Canada as their inaugural winner of the Employer of Choice in the Canadian insurance industry. Management considers the retention of key staff and a high-quality workforce to be critical to our long-term success.

***Prudent Enterprise Risk Management.*** Our Company has developed and embraces a comprehensive and effective enterprise risk management framework in identifying and mitigating risk. This process is used to optimize our use of capital by quantifying the risks and rewards associated with the business we write. Part of this process includes the sharing of risk with strong, reputable reinsurance partners. In our surety business, Trisura Guarantee employs both quota share and excess of loss treaties in ceding risk to a panel of the world's leading reinsurers in order to bring Trisura Guarantee's possible maximum loss scenarios within tolerance levels established by its board of directors. Similarly, we share risk with a panel of reinsurers in order to limit the potential downside on any single risk. Trisura US intends to significantly limit its retained risk by reinsuring the majority of its business to high quality reinsurance partners.

***Experienced and Supportive Shareholder.*** PVI will own approximately 9.0% of the Common Shares following the spin-off. PVI is willing to provide financial support to our Company, if necessary, and may increase its ownership interest over time. PVI management has many years of investing experience, including investing in the insurance space.

## **Growth Strategies**

***Acquisitions.*** Our Company intends to look at acquisitions on an opportunistic basis and pursue those that fit with our long-term strategic plan. It is expected that consolidation in the U.S. and international specialty insurance and reinsurance markets will continue, in which we may participate. Building on the knowledge and expertise of the existing operations, we intend to initially target businesses in the U.S. that operate in similar niches of the specialty insurance market.

***Opportunistically Capitalize on Favourable Market Conditions in the U.S.*** We believe the conditions are favourable for our Company to grow our business in the U.S., generating new specialty insurance business and partnering with strong reinsurance providers to cede a large portion of the underwriting risk. MGAs are expected to welcome the new capacity provided by Trisura US as there is a lack of supply of capital arrangements, and those offered do not always meet the needs of their business. Furthermore, we believe there is an abundance of reinsurance capacity, allowing Trisura US to cede most of the risk on its policies to third party reinsurers on commercially favourable terms. Trisura US expects to build its operations quickly.

***Continued Focus on Distribution Network.*** Building on our existing partner network in Canada and our core base of program administrators in the U.S., our Company will strive to increase the penetration of our products in our partner network by providing the support they require to enhance the effectiveness of their sales and marketing efforts.

## **Distribution**

Our Company's Canadian distribution network comprises over 150 contracted insurance brokerage firms operating across Canada in all provinces and territories. These include major international, national and regional firms as well as boutique, niche brokers with a focus on specialty lines. We are selective in partnering with a limited brokerage force, focusing our efforts on those that are leading brokerage firms in the industry with expertise in specialty lines. We believe in creating positive experiences for our brokers by providing exceptional service and strong products through a solutions-oriented and expert underwriting team. Furthermore, we develop deep and lasting relationships with our brokers and work with them on a strategic level on planning for mutual success. We regularly canvass our brokers to get feedback on where we can improve. Our most recent survey, conducted in the fall of 2016, confirmed that 95.6% of our brokers would recommend Trisura Guarantee to clients or colleagues.

In the U.S. market, our focus will be on building strong and profitable relationships with program administrators, insurance organizations, reinsurance companies and reinsurance intermediaries to generate business opportunities. Many of these relationships already exist with our management team and can be leveraged to source new business.

## **Competition**

Our Company is a specialty insurance provider. There are numerous competitors in the markets and geographies in which we operate. These include, among others, American Financial Group Inc., Arch Capital Group Ltd., Aviva plc., Intact Financial Corporation, Guarantee Company of North America, State National Companies Inc. and The Travelers Companies Inc.

The surety markets are relatively concentrated. In 2016, the top five surety companies operating in Canada had a combined market share of 69.0%. We currently stand as the sixth largest company in the Canadian surety marketplace, with a market share of 6.5%.

Our risk solutions business has seen stable market conditions in its segments of the marketplace. The number of competitors is limited, with few having a significant market share.

Products written by our corporate insurance business are subject to intense competition, and underwriting conditions remain challenging. We continue to increase our penetration of those markets by focusing on our broker relationships and ensuring we remain in step with the ongoing product enhancements that occur in the corporate insurance business.

The international reinsurance marketplace is highly competitive. The supply of reinsurance capital available to write reinsurance is abundant and at record levels due to the relative absence of major catastrophe losses in recent years, falling interest rates which have increased reinsurers' capital through realized and unrealized gains on their bond portfolios and the influx of alternative providers of reinsurance capital (including hedge funds). In recent years, this has resulted in supply outstripping demand for reinsurance, resulting in reductions in market pricing. In addition, some areas of reinsurance have seen significant erosion of policy terms and conditions designed to mitigate losses for reinsurers. While there are some current indications that the soft market conditions are close to or at the bottom, there can be no guarantee that these soft markets might not continue for some time.

## **Investment Management**

Our investment objectives are to produce an attractive total return on our invested assets after taxes, to protect and enhance regulated underwriting capital on a long-term basis and to maintain adequate liquidity for specialty insurance operations. All investment decisions are made with the intention of providing a stable income base without producing an undue level of investment risk.

Currently, we have outsourced a portion of our investment management to Soundvest Capital Management and Brookfield Asset Management. We intend to develop internal investment management capabilities as we grow.

## **Information Technology**

Trisura Guarantee has developed its own in-house system to manage business written by its surety and risk solutions groups, and licenses a third party system for some of its specialty insurance product lines. It also developed an online portal with the ability to rate, quote, bind, issue, and accept payment for insurance products. In 2016, Trisura Guarantee processed approximately 28,000 transactions totaling approximately \$16.5 million in premiums on the portal. We are continuing to expand our capabilities in this area and remain mindful of the potential competition arising from potential developments in the specialty insurance and financial technology sectors.

In the Canadian construction industry, the growing trend by owners is towards electronic procurement, including the requirement for delivery of electronic bid bond security. Until recently, this service has been provided solely by a few third party providers. We are the first surety provider in Canada to have developed its own in-house technology solution to deliver e-bonds for our brokers and contractors. Our system, Trisura E-Bond, is compatible with most major electronic tendering systems and we have been approved and endorsed by the Surety Association of Canada for the integrity of content, secure access and enforceability.

In the fourth quarter of 2016, Trisura Guarantee developed and recently launched an online application and approval process for small contractors requiring surety bonds, which is gaining traction.

Brookfield Asset Management provides Trisura Guarantee with certain information technology infrastructure, hosting and application support services and identity and access management. Those services will continue to be provided by Brookfield Asset Management immediately following the spin-off; however, as our Company grows, we expect to develop our own capabilities in those areas.

For the U.S. market, management has developed an in-house tool that will provide Trisura US with full, detailed, policy-level underwriting, policy, and claims data, while allowing MGAs to utilize their systems for policy administration and underwriting.

## **Regulatory Framework**

### *Canada*

TGI is federally incorporated and is regulated by OSFI. TGI is licensed in all provinces and territories of Canada. TGI is subject to both prudential regulation by OSFI (focusing on capital adequacy and solvency), and market conduct regulation (focusing on consumer protection) by each of the insurance regulatory authorities of the provinces and territories in which it conducts business.

In accordance with the ICA, Trisura Group is considered to have a significant interest in TGI because the aggregate of the shares of TGI beneficially owned by Trisura Group exceeds 10.0% of all outstanding shares of TGI. For so long as this remains the case, no person is permitted to acquire control of Trisura Group, as determined in accordance with OSFI guidelines, without the prior approval of the Minister. If a person contravenes this restriction, the Minister may, by order, direct that person to dispose of all or any portion of the shares held. This restriction may deter third parties from making an offer to acquire control of our Company.

### *U.S.*

In the U.S., we expect that Trisura US will be incorporated and regulated by the Department of Insurance in Oklahoma and will have non-admitted status in all other states and jurisdictions within the U.S. We anticipate that Trisura US will start to write business in the third quarter of 2017.

The laws of the State of Oklahoma, where Trisura US is expected to be domiciled, require prior approval by the Department of Insurance in Oklahoma of any change of control of an insurer. "Control" is defined as the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the regulated insurance company, whether through the ownership of voting securities, by contract or otherwise. Control is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company domiciled in Oklahoma or any entity that controls an insurance company domiciled in Oklahoma. Any person wishing to acquire "control" of our Company would first be required to obtain the approval of the Department of Insurance in Oklahoma or file appropriate disclaimers.



Any future transactions that would constitute a change of control, including a change of control of our Company and/or Trisura US, would require the party acquiring or divesting control to obtain the prior approval of the Department of Insurance in Oklahoma and may also require pre-notification in certain other states. Obtaining these approvals may result in the material delay of, or deter, any such transaction.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of our Company, including through transactions (and in particular, unsolicited transactions), that some or all of our shareholders might consider to be desirable.

#### ***Barbados***

Trisura International Insurance is subject to regulation by the Financial Services Commission in Barbados.

#### ***Ireland***

Imagine Asset Services dac, a wholly-owned subsidiary of Trisura International Holdco, is subject to regulation by the Central Bank of Ireland. However, the company commuted its last remaining reinsurance contract in December 2016. In January 2017, it commenced the withdrawal of authorization process with the Central Bank of Ireland, at the conclusion of which Imagine Asset Services dac will no longer be a reinsurance company and will no longer be subject to regulation by the Central Bank of Ireland.

#### **Employees**

Our Company has 131 employees as of May 8, 2017, consisting of 124 employees at Trisura Guarantee (116 of whom are full-time employees) and seven employees at Trisura International. Additionally, Trisura Group has retained two consultants who, upon incorporation of Trisura US, are expected to become employees of Trisura US.

## SELECTED PRO FORMA FINANCIAL INFORMATION

The following tables present selected pro forma financial information for Trisura Group. The selected pro forma financial information for Trisura Group has been derived from, and should be read in conjunction with, the unaudited pro forma financial statements of Trisura Group and the audited consolidated financial statements of TG Holdco and Trisura International Holdco and the related notes included elsewhere in this prospectus. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those listed under “Risk Factors”.

The unaudited pro forma financial statements of Trisura Group are based on management’s assumptions and adjustments, which are inherently subjective. The unaudited pro forma financial statements of Trisura Group may not be indicative of the financial position and results of operations that would have occurred if the transactions had taken place on the dates indicated or of the financial position or operating results which may be obtained in the future. The unaudited pro forma financial statements of Trisura Group are not a forecast or projection of future results. The actual financial position and results of operations of our Company for any period following the completion of the spin-off will likely vary from the amounts set forth in the unaudited pro forma financial statements and such variation may be material.

The unaudited pro forma financial information has been prepared to reflect the following transactions in connection with the spin-off:

- Brookfield Asset Management will subscribe for approximately 5,799,960 Common Shares in exchange for approximately \$144.9 million; and
- Trisura Group will use the \$144.9 million of cash received from Brookfield Asset Management to acquire (i) Brookfield Asset Management’s interest in Trisura International Holdco for approximately \$51.8 million, (ii) Brookfield Asset Management’s 60.0% interest in TG Holdco for approximately \$51.8 million, and (iii) Brookfield Asset Management’s interest in the note payable from TG Holdco to Brookfield Asset Management for approximately \$211.0 thousand, leaving Trisura Group with \$41.1 million in additional cash.

Trisura Group’s share capital following these transactions will total approximately \$144.9 million or approximately \$25.00 per Common Share representing its approximate fair value as of that date.

To effect the spin-off, Brookfield Asset Management will distribute all of the Common Shares on a pro-rata basis to the holders of its Class A Shares and Class B Shares.

The unaudited pro forma financial statements of Trisura Group have been prepared to reflect the impact of the above-noted transactions within our Company based on Brookfield Asset Management’s accounting policy for common control transactions. Accordingly, the acquisitions of Trisura International and Trisura Guarantee by Trisura Group have been recorded at carrying value. The unaudited pro forma financial statements of Trisura Group are based on preliminary estimates, accounting judgments and currently available information and assumptions that management believes are reasonable. The notes to the unaudited pro forma financial statements of Trisura Group provide a detailed discussion of how such adjustments were derived and presented in the unaudited pro forma financial statements of Trisura Group.

## Unaudited Pro Forma Statement of Income Data

<u>(in \$ thousands)</u>	<u>Year ended December 31, 2016</u>
Gross premiums written . . . . .	\$124,965
Net premiums written . . . . .	87,064
Change in unearned premiums . . . . .	(14,809)
Net premiums earned . . . . .	72,255
Fee income . . . . .	3,365
	<u>75,620</u>
Claims and loss adjustment expenses . . . . .	40,987
Reinsurers' share of claims and loss adjustment expenses . . . . .	(12,942)
Commissions . . . . .	31,384
Reinsurance commissions . . . . .	(8,314)
Premium taxes . . . . .	3,591
Operating expenses . . . . .	26,604
	<u>81,310</u>
Net underwriting loss . . . . .	(5,690)
Investment income . . . . .	11,669
Foreign exchange loss . . . . .	(528)
Interest expense . . . . .	(481)
Change in liabilities to participating shareholders . . . . .	(155)
Income tax expense . . . . .	(1,862)
Net income . . . . .	<u>\$ 2,953</u>
Per share . . . . .	<u>\$ 0.51</u>

## Unaudited Pro Forma Statement of Financial Position Data

<u>(in \$ thousands)</u>	<u>As at December 31, 2016</u>
Cash and cash equivalents . . . . .	\$163,197
Investments . . . . .	\$179,264
Total assets . . . . .	\$460,502
Unearned premiums . . . . .	\$ 90,612
Unpaid claims and loss adjustment provisions . . . . .	\$163,970
Total liabilities . . . . .	\$347,983
Total shareholders' equity . . . . .	\$112,519

## SELECTED HISTORICAL FINANCIAL INFORMATION

### Overview

The following tables present selected historical financial data for Trisura Guarantee and Trisura International. The information included in this section should also be read in conjunction with the unaudited pro forma financial statements of Trisura Group as at and for the year ended December 31, 2016 included under “Selected Pro Forma Financial Information”.

### Trisura Guarantee

The selected financial data for Trisura Guarantee are derived from the audited consolidated financial statements of TG Holdco as at December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016. The selected financial data for Trisura Guarantee should be read in conjunction with those financial statements.

#### Statement of Comprehensive Income Data

(in \$ thousands)	Year ended December 31,		
	2016	2015	2014
Gross premiums written . . . . .	\$124,802	\$104,142	\$91,143
Net premiums written . . . . .	86,902	71,849	62,947
Change in unearned premiums . . . . .	(14,809)	(7,564)	(7,921)
Net premiums earned . . . . .	72,093	64,285	55,026
Fee income . . . . .	3,352	3,149	2,353
	75,445	67,434	57,379
Claims and loss adjustment expenses . . . . .	35,338	24,871	15,647
Reinsurers’ share of claims and loss adjustment expenses . . . . .	(12,942)	(11,694)	(5,994)
Commissions . . . . .	30,661	27,398	23,321
Reinsurance commissions . . . . .	(8,314)	(6,838)	(5,995)
Premium taxes . . . . .	3,591	3,083	2,663
Operating expenses . . . . .	21,480	21,207	19,910
	69,814	58,027	49,552
Net underwriting income . . . . .	5,631	9,407	7,827
Net investment income . . . . .	1,137	2,570	3,067
Interest expense . . . . .	(481)	—	—
Change in liabilities to participating shareholders . . . . .	(155)	(3,540)	993
Income tax expense . . . . .	(1,564)	(2,936)	(2,678)
Net income . . . . .	4,568	5,501	9,209
Other comprehensive income (loss) . . . . .	5,037	(3,656)	1,027
Comprehensive income . . . . .	\$ 9,605	\$ 1,845	\$10,236
Ratios:			
Growth rate . . . . .	19.8%	14.3%	15.2%
Loss ratio . . . . .	31.1%	20.5%	17.5%
Expense ratio . . . . .	65.8%	69.8%	72.5%
Combined ratio . . . . .	96.9%	90.3%	90.0%

### Statement of Financial Position Data

(in \$ thousands)	As at December 31,	
	2016	2015
Cash and cash equivalents . . . . .	\$ 29,378	\$ 18,596
Investments . . . . .	129,360	108,702
Total assets . . . . .	259,856	210,241
Unearned premiums . . . . .	90,612	71,480
Unpaid claims and loss adjustment expenses . . . . .	67,465	49,475
Liabilities to participating shareholders . . . . .	16,008	15,812
Total liabilities . . . . .	240,471	161,759
Shareholders' equity . . . . .	19,385	48,482

### Trisura International

The selected financial data for Trisura International are derived from the audited consolidated financial statements of Trisura International Holdco as at December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016, which are included elsewhere in this prospectus. The selected financial data for Trisura International should be read in conjunction with those financial statements.

### Statement of Profit or Loss and Other Comprehensive Income Data

(in US\$ thousands)	Year ended December 31,		
	2016	2015	2014
<b>Revenues</b>			
Net premiums written . . . . .	\$ 123	\$ 138	\$ 261
Net premiums earned . . . . .	123	138	261
Net investment income . . . . .	8,528	4,225	21,012
Fee (loss) income on investment contracts . . . . .	(571)	706	4,685
Net foreign exchange (losses) gains . . . . .	(399)	2,412	485
Other income . . . . .	10	—	451
	<u>7,691</u>	<u>7,481</u>	<u>26,894</u>
<b>Expenses</b>			
Claims and claims adjustment expenses incurred . . . . .	4,268	(13,102)	31,063
Policy acquisition costs . . . . .	546	439	69
Operating expenses . . . . .	3,871	4,654	5,226
	<u>8,685</u>	<u>(8,009)</u>	<u>36,358</u>
	(994)	15,490	(9,464)
Income tax expense . . . . .	225	254	247
Net (loss) income . . . . .	<u>\$(1,219)</u>	<u>\$15,236</u>	<u>\$ (9,711)</u>
Other comprehensive loss . . . . .	\$ (938)	\$ (930)	\$ (175)
Comprehensive (loss) income . . . . .	<u>\$(2,157)</u>	<u>\$14,306</u>	<u>\$ (9,886)</u>

*Statement of Financial Position Data*

<u>(in US\$ thousands)</u>	As at December 31,	
	2016	2015
Cash and cash equivalents . . . . .	\$ 68,971	\$ 59,833
Investments . . . . .	48,623	79,450
Total assets . . . . .	118,682	142,670
Total liabilities . . . . .	80,370	102,201
Total shareholder's equity . . . . .	38,312	40,469

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — TRISURA GUARANTEE

*The following discussion and analysis provides information concerning Trisura Guarantee's financial condition and results of operations. This discussion and analysis should be read in conjunction with the audited consolidated financial statements of TG Holdco as at December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016 and the notes thereto. The consolidated financial statements, which are contained elsewhere in this prospectus, were prepared in accordance with IFRS.*

*Some of the information contained in this discussion and analysis contains forward-looking statements that involve risks and uncertainties. See "Special Note Regarding Forward-Looking Information" and "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in "Risk Factors" and elsewhere in this prospectus.*

*All references to Trisura Guarantee are to the consolidated operations and financial results of TG Holdco and its wholly-owned subsidiary, TGI.*

### **Overview of Business**

#### ***Business Background***

Trisura Guarantee is a niche P&C insurance company with a primary focus on the Canadian surety, professional and executive liability and warranty markets. Trisura Guarantee is headquartered in Toronto and has branches in Vancouver, Calgary, Montreal, Quebec City and Halifax, and is licensed in all provinces and territories of Canada. Its distribution network comprises over 150 contracted insurance brokerage firms operating across Canada in all provinces and territories, and includes major international, national and regional firms as well as boutique, niche brokers with a focus on specialty lines. Since its incorporation in 2006, Trisura Guarantee's gross premiums written have grown to \$124.8 million on an annualized basis as at December 31, 2016. Trisura Guarantee has a small, but profitable, share of the total Canadian P&C insurance market, and is a significant participant in its targeted niche segments of the market.

TGI has an "A—" A.M. Best rating, which allows it to write business with a wide variety of partners. We believe it has a strong history of premium and book value growth, and conservative underwriting practices; it is federally incorporated and regulated by OSFI and maintains a conservative MCT, as well as strong ROE.

Trisura Guarantee currently has three established business lines: surety, specialty insurance solutions, and risk solutions (along with the casualty business that commenced operations in 2015, but has written an immaterial amount of premiums to date).

#### ***Revenue***

Trisura Guarantee's revenue consists primarily of net premiums earned from the issue of surety bonds and insurance policies, annual fees charged to surety clients for their bonding facilities, and investment income. Most of the investment income is derived from assets funded by unearned premiums, unpaid claims and loss adjustment expenses, and shareholders' equity.

#### ***Claims and Expenses***

Trisura Guarantee's costs consist of claims and loss adjustment expenses (both known and estimated, based on claims reported and unreported, the latter being actuarially determined), commissions paid to brokerage firms net of commissions received from reinsurance companies on premiums ceded to them (such ceding commissions compensating Trisura Guarantee for the reinsurers' share of the costs incurred on writing the business), premium taxes and operating expenses. A significant portion of Trisura Guarantee's operating expenses comprise employee compensation and benefits.

## ***Regulation***

TGI is subject to both prudential regulation by OSFI (focusing on capital adequacy and solvency), and market conduct regulation (focusing on consumer protection) by each of the insurance regulatory authorities of the provinces and territories in which it conducts business. Changes in these regulations could significantly affect its operations and financial results. See “Risk Factors” for further details.

## ***Outlook***

Trisura Guarantee aims to deliver a 15.0% after-tax ROE and an 85.0% combined ratio on its underwriting operations. Trisura Guarantee has consistently delivered strong underwriting results alongside a conservative investment portfolio. Management plans to continue the strong history of underwriting results in the Canadian specialty insurance space.

Much of Trisura Guarantee’s business is impacted by the health of the economy; claims activity is partially tied to the financial well-being of clients. The risk of financial failure increases in times of recession or depression, and often so does claims activity. Prudent underwriting and ongoing monitoring of risk can limit or mitigate claims results even in the most challenging of economic times.

With six branches across Canada, Trisura Guarantee manages risk through local personnel who monitor regional economies. These employees know brokers and clients well; they can take advantage of opportunities when they are presented and can react to changes quickly.

## **Critical Accounting Estimates**

The preparation of consolidated financial statements in accordance with IFRS requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods covered by the financial statements. Significant estimates and judgments are used by Trisura Guarantee in the determination of unpaid claims and loss adjustment expenses, liabilities to participating shareholders and securities impairment. Any changes in estimates are recorded in the period in which they are determined. Accordingly, actual results may differ from the estimates used in preparing the consolidated financial statements and such differences may be material.

### ***Unpaid Claims and Loss Adjustment Expenses***

In estimating unpaid claims and loss adjustment expenses, standard actuarial techniques are used. These techniques are based on historical loss development factors and payment patterns. They require the use of assumptions such as loss and payment development factors, future rates of claims frequency and severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of Trisura Guarantee and the nature of the insurance policies. In addition, time can be a critical factor, since the longer the span between the incidence of a loss and the settlement of the claim, the more variable the ultimate settlement amount could be. Consequently, claims liabilities are inherently subject to material uncertainty as to the ultimate amounts required to adjust and settle claims outstanding at the financial reporting date, both reported and incurred but not yet reported.

### ***Liabilities to Participating Shareholders***

Under the terms of the existing TG Holdco unanimous shareholder agreement, the common shares of TG Holdco issued to the TG Management Group have a put right which results in these shares being classified as financial liabilities in accordance with International Accounting Standard 32, *Financial Instruments: Presentation*. These liabilities are measured at fair value, being the put value ascribed to the common shares of TG Holdco at the financial reporting date under the existing TG Holdco unanimous shareholder agreement. The put value is based on the greater of a multiple of earnings and a multiple of book value. However, terms and conditions attach to the ability of the TG Management Group to put the common shares, certain situations result in the TG Management Group’s common shares being valued at a discount to the put value, and members



of the TG Management Group are not required to dispose of their common shares until they leave Trisura Guarantee. Consequently, the total amount that will be paid to the TG Management Group for their common shares of TG Holdco will differ from the amount shown, quite possibly by a material amount.

### **Investments**

Trisura Guarantee's investments are classified as available-for-sale ("AFS") except in limited circumstances described below when they may be designated as fair value through profit and loss ("FVTPL"). Investments classified as AFS are carried at fair value, with changes in fair value recorded as unrealized gains (or losses) in other comprehensive income. Investments classified as FVTPL are also carried at fair value, but changes in fair value are recorded as unrealized gains (or losses) in net income.

If an investment incorporates an embedded derivative, such as the conversion feature of a convertible bond that is otherwise required to be accounted for separately, that investment may be designated as FVTPL, in which case no separate accounting is required for the embedded derivative. To date, Trisura Guarantee has used the FVTPL option for such investments.

### **Consolidated Statements of Comprehensive Income**

<u>(in \$ thousands)</u>	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross premiums written . . . . .	\$124,802	\$104,142	\$91,143
Net premiums written . . . . .	86,902	71,849	62,947
Net premiums earned . . . . .	72,093	64,285	55,026
Fee income . . . . .	3,352	3,149	2,353
Claims and loss adjustment expenses . . . . .	\$ 35,338	\$ 24,871	\$15,647
Reinsurers' share of claims and loss adjustment expenses . . . . .	(12,942)	(11,694)	(5,994)
Commissions . . . . .	30,661	27,398	23,321
Reinsurance commissions . . . . .	(8,314)	(6,838)	(5,995)
Premium taxes . . . . .	3,591	3,083	2,663
Operating expenses . . . . .	21,480	21,207	19,910
Net underwriting income . . . . .	5,631	9,407	7,827
Investment income . . . . .	1,137	2,570	3,067
Interest expense . . . . .	(481)	—	—
Change in liabilities to participating shareholders . . . . .	(155)	(3,540)	993
Income tax expense . . . . .	(1,564)	(2,936)	(2,678)
Net income . . . . .	4,568	5,501	9,209
Other comprehensive income (loss) . . . . .	5,037	(3,656)	1,027
Comprehensive income . . . . .	<u>\$ 9,605</u>	<u>\$ 1,845</u>	<u>\$10,236</u>
Distributions:			
Redemptions, Class A non-voting common shares . . . . .	\$ 21,000	\$ 2,000	\$ 2,000
Dividends, Class A non-voting common shares . . . . .	\$ 17,702	\$ 1,000	\$ 881
Ratios:			
Growth rate . . . . .	19.8%	14.3%	15.2%
Loss ratio . . . . .	31.1%	20.5%	17.5%
Expense ratio . . . . .	65.8%	69.8%	72.5%
Combined ratio . . . . .	96.9%	90.3%	90.0%

## Consolidated Statements of Financial Position

(in \$ thousands)	As at December 31,		
	2016	2015	2014
Total assets . . . . .	\$259,856	\$210,241	\$191,672
Bank debt . . . . .	\$ 34,100	\$ —	\$ —

See “— Financial Position” for further details.

## Results of Operations

### Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

#### *Gross Premiums Written*

Gross premiums written increased by 19.8% in 2016 compared to 2015, from \$104.1 million to \$124.8 million. Most of this growth was attributable to the risk solutions business, which grew by 38.0%. The surety and specialty insurance solutions businesses grew by 9.8% and 6.9%, respectively. Growth in the risk solutions business was attributable to the addition of new programs as well growth in its existing programs.

#### *Net Premiums Written*

Net premiums written increased by 20.9% in 2016 compared to 2015, from \$71.8 million to \$86.9 million. The increase in the growth rate relative to that for gross premiums written primarily reflects a reduction in the proportion of gross premiums ceded by the risk solutions business because of new business written in 2016 that was not reinsured. In addition, the cost of reinsurance for both the surety and specialty insurance solutions businesses declined from 2015 even though coverage improved, the reinsurance market still being competitive for the lines written.

#### *Net Premiums Earned*

Net premiums earned increased by 12.1% in 2016 compared to 2015, from \$64.3 million to \$72.1 million. The lower growth rate relative to net premiums written was driven by the earnings drag from the multi-year average term of the business written by the risk solutions business.

#### *Fee Income*

Fee income, being the annual fees charged to surety accounts (clients) for their bonding facilities, typically in January, increased by 6.5% in 2016 compared to 2015, from \$3.2 million to \$3.4 million. This growth reflects the addition of new accounts in the latter part of 2015 and during 2016.

#### *Claims and Loss Adjustment Expenses*

Claims and loss adjustment expenses (also referred to as gross claims and loss adjustment expenses), being the claims and loss adjustment expenses incurred by Trisura Guarantee before deduction of the reinsurers' share and comprising known (“**case**”) claims and a provision for incurred but not reported claims (“**IBNR**”), increased by 42.1% in 2016 compared to 2015, from \$24.9 million to \$35.3 million. The increase was attributable to the risk solutions business, which determined in October 2016 that a significant claims reserve needed to be established for one of its programs (the “**TG Risk Solutions Claim**”). The TG Risk Solutions Claim relates to a warranty program that is back-stopped by a contractual liability insurance policy issued by Trisura Guarantee under which Trisura Guarantee becomes liable if the originator of the warranty program is unable to meet its obligations. In October 2016, management determined that the originator may not be able to meet its obligations due to greater than expected claims. The originator cancelled the program, and after assessing possible recoveries and consulting with TGI's external appointed actuary it was recommended that a claims reserve of \$10.0 million should be established representing an estimate of the loss expected to be incurred under the warranty program based on the information available to date. Management is working closely with the originator to monitor and

manage the TG Risk Solutions Claim. While nothing is known to date to suggest the loss will exceed the \$10.0 million claims reserve, there can be no assurance that the loss will not exceed this amount.

In the surety and specialty insurance solutions businesses, both case claims and the IBNR provisions decreased in 2016 compared to 2015, reflecting improved underwriting results in 2016 along with a reduction in prior years' IBNR reserves, but these results were offset by large property insurance claims under a program in the casualty business (all of which were 100% reinsured).

The reinsurers' share of claims and loss adjustment expenses increased by 10.7% in 2016 compared to 2015, from \$11.7 million to \$12.9 million. The reinsurers' share of surety and specialty insurance solutions claims (case and IBNR) decreased in line with the gross amounts, whereas it increased by more than \$3.0 million in the casualty business as a consequence of the previously mentioned large property claims being fully reinsured.

A key measurement for management is the loss ratio, which is determined by dividing claims and loss adjustment expenses net of the reinsurers' share by net premiums earned. The details for each business line are provided under "— Business Line Analysis". On an overall basis, the loss ratio increased to 31.1% in 2016 compared to 20.5% in 2015. The loss ratios for the surety and specialty insurance solutions businesses decreased in 2016 compared to 2015; however, the loss ratio in the risk solutions business increased significantly over this period as a result of the TG Risk Solutions Claim.

#### *Commissions*

Commissions (being the amortization of commissions paid to insurance brokers and intermediaries over the terms of the associated bonds and policies written by such brokers and intermediaries) increased by 11.9% in 2016 compared to 2015, from \$27.4 million to \$30.7 million, which was in line with the increase in net premiums earned.

#### *Reinsurance Commissions*

Reinsurance commissions (being commissions received from reinsurers and earned over the terms of the underlying bonds and policies that have been reinsured) increased by 21.6% in 2016 compared to 2015, from \$6.8 million to \$8.3 million. Much of the increase was attributable to profit sharing from reinsurers for business ceded up until 2016 under the surety quota share reinsurance treaties for the preceding years as a result of the positive claims experience on the surety business over those years.

#### *Operating Expenses*

Operating expenses increased by 1.3% in 2016 compared to 2015, from \$21.2 million to \$21.5 million. Additional marketing expenses were incurred in 2016 to celebrate and publicize Trisura Guarantee's 10<sup>th</sup> anniversary, rental expenses increased as a result of the expansion of Trisura Guarantee's office premises in Toronto to accommodate continuing growth, and fees were incurred in establishing the TG Credit Facility (as defined below). These additional costs were offset by the impact of a reduced provision for staff bonuses in 2016 compared to 2015 because of the higher than expected loss ratio in 2016. After adjusting for the preceding items, the period over period growth rate of operating expenses was in line with the 12.1% increase in net premiums earned and less than the 20.9% increase in net premiums written, two performance measures that management uses.

#### *Net Underwriting Income*

Net underwriting income decreased by 40.1% in 2016 compared to 2015, from \$9.4 million to \$5.6 million. This decrease is attributable to the TG Risk Solutions Claim.

#### *Investment Income*

Investment income decreased by 55.6%, from \$2.6 million to \$1.1 million. This decrease resulted from impairment losses totaling \$2.9 million on preferred and common shareholdings in 2016 compared to an impairment loss of \$1.2 million in 2015 on a common shareholding. Under Trisura Guarantee's accounting policy, impairment losses are recognized when an investment declines in value by more than 20.0% throughout a term of at least one year. The impaired investments, net of deferred taxes of \$800.0 thousand on their unrealized losses, were removed from other comprehensive income and their pre-tax losses were included in investment income and the associated deferred taxes were credited to deferred taxes in the income statement.

Without the impact of the impairment losses, investment income would have increased by 8.1% in 2016 compared to 2015, which is consistent with the persistent low interest rate environment after adjusting for the increase in Trisura Guarantee's invested assets attributable to the growth of the business.

#### *Interest Expense*

Interest expense in 2016 was incurred on the TG Credit Facility.

#### *Change in Liabilities to Participating Shareholders*

As discussed under “— Critical Accounting Estimates”, liabilities to participating shareholders are valued in accordance with a formula at the beginning of each year. The participating shareholders are the members of the TG Management Group. The relatively small increase in liabilities to participating shareholders in 2016 reflects the impact of the other comprehensive loss and the impairment loss in 2015 on the valuation formula.

#### *Income Tax Expense*

Trisura Guarantee's statutory tax rate was 26.7% for 2016 as compared to 26.5% for 2015. Permanent differences in taxable versus accounting income in both years resulted from the tax-free treatment of dividends from Canadian companies, from which nearly all dividends were received, and the non-tax deductible change in liabilities to participating shareholders. The increase in the statutory tax rate was primarily attributable to a change in the mix of provinces and territories in which net premiums were written plus recent tax rate increases in certain provinces.

#### *Other Comprehensive Income (Loss)*

Other comprehensive income increased from negative \$3.7 million in 2015 to \$5.0 million in 2016. Before recognition of the impairment losses in both 2016 and 2015 described under “— Investment Income”, other comprehensive income amounted to \$2.9 million in 2016 compared to negative \$4.5 million in 2015, reflecting an increase in unrealized gains in all investment classes and particularly common equities over the course of 2016.

#### *Comprehensive Income*

Comprehensive income increased from \$1.8 million in 2015 to \$9.6 million in 2016. The results for 2015 reflect a large increase in the change in liabilities to participating shareholders combined with the large loss in other comprehensive income. The results for 2016 reflect much lower net underwriting income than in 2015 because of the high loss ratio, offset by a much smaller increase in the change in liabilities to participating shareholders compared to 2015 and a relatively substantial recovery in the value of the investment portfolio.

### ***Year Ended December 31, 2015 Compared to Year Ended December 31, 2014***

#### *Gross Premiums Written*

Gross premiums written increased by 14.3% in 2015 compared to 2014, from \$91.1 million to \$104.1 million, primarily because of growth in the risk solutions business, which continued to add new programs in the warranty space.

#### *Net Premiums Written*

Net premiums written increased by 14.1% in 2015 compared to 2014, from \$62.9 million to \$71.8 million. The risk solutions business was the primary contributor to this growth.

#### *Net Premiums Earned*

Net premiums earned increased by 16.8% in 2015 compared to 2014 from \$55.0 million to \$64.3 million. Risk solutions was again the major contributing factor, although growth was moderated because of a change in the mix of business within that line and the impact of more reinsurance in 2015 than 2014.

### *Fee Income*

Fee income increased by 33.8% in 2015 compared to 2014, from \$2.4 million to \$3.1 million. This growth reflected (i) the addition of several new surety accounts following the purchase of the L'Unique client list in late 2014 (discussed under "Business of Trisura Group — Operations — Canadian Operations"); (ii) new surety accounts added in the normal course; and (iii) additional fees charged in 2015 for a complex bonding facility.

### *Claims and Loss Adjustment Expenses*

Gross claims and loss adjustment expenses increased by 59.0% in 2015 compared to 2014, from \$15.6 million to \$24.9 million. Of this increase, \$7.4 million was attributable to case claims (from \$12.9 million to \$20.3 million), and the balance was attributable to IBNR. All business lines experienced large claims in 2015, although a significant portion was ceded to reinsurers.

The reinsurers' share of claims and loss adjustment expenses increased by 95.1% in 2015 compared to 2014, from \$6.0 million to \$11.7 million. Of the increase, risk solutions accounted for \$5.5 million.

The overall loss ratio increased from 17.5% in 2014 to 20.5% in 2015. Therefore, even though there was a large nominal increase in the net (of reinsurance) claims and loss adjustment expenses (from \$9.7 million in 2014 to \$13.2 million in 2015), this was moderated by the increase in net premiums earned, the result being that management achieved its goal of a loss ratio of no greater than 25.0%.

### *Commissions*

Commission expense increased by 17.5% in 2015 compared to 2014, from \$23.3 million to \$27.4 million, reflecting the greater growth rate of the risk solutions business relative to the other business lines. Commissions paid on risk solutions' programs tend to be much higher than those paid on other business.

### *Reinsurance Commissions*

Earned reinsurance commissions increased by 14.1% in 2015 compared to 2014, from \$6.0 million to \$6.8 million, due to a new program written in the risk solutions business in 2015 that was fully reinsured.

### *Operating Expenses*

Operating expenses increased by 6.5% in 2015 compared to 2014, from \$19.9 million to \$21.2 million. All major expense categories (particularly salaries, rent and information systems) grew at less than the overall rate, offset primarily by the provision for annual employee bonuses, which increased as a result of net underwriting income exceeding budget by a greater margin in 2015 compared to 2014, and marketing expenses that included a new initiative in the specialty insurance solutions business under which all of its policyholders are now entitled to privacy and security breach services.

### *Net Underwriting Income*

Net underwriting income increased by 20.2% in 2015 compared to 2014, from \$7.8 million to \$9.4 million. This is primarily attributable to the increase in the net of reinsurer claims and adjustment expenses being offset by the low increase in operating expenses and the additional fee income.

### *Investment Income*

Investment income decreased by 16.2% in 2015 compared to 2014, declining from \$3.1 million to \$2.6 million. This reduction reflects an impairment loss of \$1.2 million on a common equity holding that was recognized in 2015. Excluding the impairment loss, investment income would have increased by 21.5% as a result of growth of the investment portfolio driven by the growth of Trisura Guarantee's business combined with a solid increase in dividend and business income from all investment classes.

### *Change in Liabilities to Participating Shareholders*

The change in liabilities to participating shareholders reflects the change in value of the TG Management Group's common shares of TG Holdco from the preceding year after adjusting for value increments realized by those who sold their common shares during the year. In 2015, there was a 28.7% increase in the valuation of the TG Management Group's common shares as compared to that in 2014, resulting in a significant charge of \$3.5 million. In 2014, the valuation dropped by \$1.0 million relative to 2013 in accordance with the valuation framework included in the existing TG Holdco unanimous shareholder agreement.

### *Income Tax Expense*

Trisura Guarantee's statutory tax rate was 26.5% for 2015 as compared to 26.4% for 2014. Permanent differences in taxable versus accounting income in both years resulted from the tax-free treatment of dividends from Canadian companies, from which all dividends were received, and the non-tax deductible change in liabilities to participating shareholders. The small increase in the statutory tax rate was primarily attributable to a change in the mix of provinces and territories in which net premiums were written.

### *Other Comprehensive Income (Loss)*

As further described under "— Investment Income", a common equity holding was recognized as being impaired in 2015. The impairment loss of \$1.2 million, along with the off-setting deferred tax credit of \$300.0 thousand, were removed from other comprehensive income and recognized in net income. Consequently, the other comprehensive loss of \$3.7 million in 2015 would have been \$4.5 million if not for this accounting treatment. This large loss was primarily attributable to a decline in the value of Trisura Guarantee's preferred and common share holdings.

### *Comprehensive Income*

Comprehensive income decreased from \$10.2 million in 2014 to \$1.8 million in 2015. The results for 2015 reflect an improved loss ratio from the first nine months, offset by a large increase in the change in liabilities to participating shareholders and a significant other comprehensive loss.

## **Business Line Analysis**

### *Overview*

Trisura Guarantee currently has three established business lines: surety, specialty insurance solutions (which comprises our Company's corporate insurance business line discussed under "Business of Trisura Group — Business Lines — Corporate Insurance"), and risk solutions (along with the casualty business that commenced operations in early 2015, but has written an immaterial amount of premiums to date). The following provides summary financial statistics and discussion for the three established business lines.

### *Surety*

The table below presents summary financial statistics for the surety business for the periods indicated:

<u>(in \$ thousands)</u>	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross premiums written . . . . .	\$43,751	\$39,861	\$38,368
Net premiums earned . . . . .	29,685	27,848	24,453
Fee income <sup>(1)</sup> . . . . .	3,336	3,133	2,328
Net underwriting income . . . . .	\$ 8,375	\$ 4,780	\$ 5,210
Ratios:			
Growth rate . . . . .	9.8%	3.9%	9.8%
Combined ratio . . . . .	83.0%	94.1%	88.2%

(1) Fee income represents annual charges to contractors in relation to bonding facilities.

Surety revenue is heavily weighted to contract surety performance and labour and materials bonds (just over 80.0%) and is produced primarily from the construction industry. The balance of surety revenue derives from commercial surety (non-contract bonds such as license and permit bonds, fiduciary bonds and customs bonds) and developer surety (from bonds issued on condominium projects in Ontario).

Growth in surety has been varied over the past three years, reflective of a weaker economy, the impact from the collapse of the oil and gas sector in western Canada and, in Quebec, the repercussions of the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry (referred to as the Charbonneau Commission) into potential corruption in the management of public construction contracts in the province.

Since 2014, growth in the contract surety product line has been driven by growth in regional small to mid-sized contractors. Over the past several years, the focus of construction spending in Canada has been on large infrastructure projects. In addition, there has been a trend toward bundling several small to mid-size projects under one large contract. The size and nature of many of these projects has attracted large international firms to Canada as well as the largest Canadian contractors. These large contracts exceed the capacity of many of Trisura Guarantee’s contractors, consequently impacting growth.

Strong growth was realized in British Columbia in 2014 as a result of the issuance of five-year road maintenance bonds. The entire premium on these bonds was recorded in 2014, but is being earned over five years, and there will be no further premium until these bonds are renewed in 2019.

Surety’s combined ratio improved from 94.1% in 2015 to 83.0% in 2016 due to a decrease in its loss ratio as a result of lower case claims, lower net commissions as a result of increased profit sharing under its quota share reinsurance treaties (because of its historically low loss ratio), and a decrease in its expense ratio driven by reduced bonus provisions.

Surety’s combined ratio increased from 88.2% in 2014 to 94.1% in 2015 primarily because of an increase in its loss ratio arising from a major contract surety claim in British Columbia.

### ***Specialty Insurance Solutions***

The table below presents summary financial statistics for the specialty insurance solutions business for the periods indicated:

<u>(in \$ thousands)</u>	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross premiums written . . . . .	\$29,533	\$27,633	\$25,223
Net premiums earned . . . . .	22,866	20,631	18,692
Net underwriting income . . . . .	\$ 5,277	\$ 2,807	\$ 3,941
<b>Ratios:</b>			
Growth rate . . . . .	6.9%	9.6%	11.0%
Combined ratio . . . . .	76.9%	86.4%	78.9%

The specialty insurance solutions business includes the following four primary product lines: (i) D&O insurance; (ii) E&O insurance; (iii) fidelity insurance; and (iv) business office package, a combined commercial general liability and property insurance offering. In the D&O insurance product line, Trisura Guarantee focuses its efforts on both for-profit (commercial) and non-profit risks. The E&O insurance product line covers a wide range of professionals such as management consultants, bookkeepers, travel agents, employment agencies, insurance brokers (“excess of”, or over, their base E&O insurance coverage) and property managers. In addition, Trisura Guarantee focuses on technology, media and cyber risks within the E&O insurance product line, with specific product wordings for these classes of business. The fidelity insurance product protects employers from losses incurred as a result of fraudulent acts committed by employees and Trisura Guarantee’s underwriting focus is on both commercial entities and financial institutions. Business office package products are written in conjunction with the D&O insurance, E&O insurance and fidelity insurance products.

Growth of the specialty insurance solutions business has been moderating over the past few years, both because of intense competition in the D&O product line and a decline in fidelity insurance. The market for fidelity insurance in Canada is relatively small and highly competitive; consequently, the ability to obtain what Trisura Guarantee considers to be appropriate premiums for the risks assumed has diminished.

The combined ratio for the specialty insurance solutions business improved from 86.4% in 2015 to 76.9% in 2016 mainly due to lower case claims and reductions in the provisions for IBNR because of positive developments in prior years' reserves. This is reflective of this business' focus on the quality of its underwriting. The level of expenses relative to net premiums earned has also been improving due to decreased staff costs, offset by a decrease in ceding commissions under the current reinsurance arrangements.

The combined ratio for the specialty insurance solutions business increased from 78.9% in 2014 to 86.4% in 2015 due to greater claims activity in the Toronto office including a large E&O claim. Decreases in net commission expense and staff costs moderated the impact of these claims.

### **Risk Solutions**

The table below presents summary financial statistics for the risk solutions business for the periods indicated:

<u>(in \$ thousands)</u>	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Gross premiums written . . . . .	\$ 49,006	\$35,516	\$ 27,075
Net premiums earned . . . . .	19,121	15,558	11,880
Fee income <sup>(1)</sup> . . . . .	15	15	25
Net underwriting (loss) income . . . . .	\$ (7,518)	\$ 2,080	\$ (1,286)
<b>Ratios:</b>			
Growth rate . . . . .	38.0%	31.2%	31.7%
Combined ratio . . . . .	139.4%	86.7%	111.0%

(1) Fee income represents annual credit assessment charges on surety-structured accounts.

The risk solutions business comprises P&C insurance and warranty programs that are written in three ways: (i) risk transfer (all the risk is assumed by Trisura Guarantee); (ii) surety (Trisura Guarantee backstops the program administrator's performance in the event of its financial failure); and (iii) fronting (Trisura Guarantee assumes the risk but then cedes all of it to insurers that are not licensed in Canada). For methods (ii) and (iii), custody accounts and security arrangements are established to offset Trisura Guarantee's risk exposure.

As with programs written in the specialty insurance solutions business, there is a lead time associated with the writing of programs in the risk solutions business, but when they are written they often generate a significant premium flow, sometimes with a delay as they become established within and between provinces. This is illustrated in the gross premiums written over the three-year period ended December 31, 2016. In 2016, two new programs were written and two grew significantly following their inception in 2015, while the other established programs experienced more moderate growth. The growth in gross premiums written in 2014 and 2015 resulted from new and recently added programs, as well as underlying growth of the existing business. New fronted programs were added in 2014 and 2015, which resulted in an increase in both premiums ceded and ceding commissions that flowed into 2016.

The high combined ratio in 2016 of 139.4% compared to 86.7% in 2015 resulted from the TG Risk Solutions Claim discussed under "— Results of Operations — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015 — Claims and Loss Adjustment Expenses". An additional provision of \$700.0 thousand for the risk of adverse development was added to the \$10.0 million claims reserve after actuarial review at year end.

Although the combined ratio increased significantly, there was a decrease in expenses in 2016 relative to 2015 attributable to both a greater proportion of fronted business written on which ceding commissions are earned, as well as a reduction in staff expenses.

The combined ratio for the risk solutions business improved from 111.0% in 2014 to 86.7% in 2015 because of the failure of a program administrator in 2014, which resulted in both a large claim reserve and the write-off of outstanding premiums receivable.



## Financial Position

The table below presents a summary of Trisura Guarantee's financial position as at the dates indicated:

(in \$ thousands)	As at December 31,	
	2016	2015
<b>Assets</b>		
Investments (including cash and cash equivalents) . . . . .	\$158,738	\$127,298
Accounts receivable . . . . .	18,786	15,886
Deferred acquisition costs . . . . .	30,985	25,862
Reinsurers' share of unearned premiums and unpaid claims and loss adjustment expenses . . . . .	47,120	37,079
Other . . . . .	4,227	4,116
	<u>\$259,856</u>	<u>\$210,241</u>
<b>Liabilities and Shareholders' Equity</b>		
<i>Liabilities</i>		
Reinsurance premiums payable . . . . .	\$ 13,461	\$ 8,317
Unearned premiums . . . . .	90,612	71,480
Unpaid claims and loss adjustment expenses . . . . .	67,465	49,475
Bank loan . . . . .	34,100	—
Liabilities to participating shareholders . . . . .	16,008	15,812
Other . . . . .	18,825	16,675
	<u>240,471</u>	<u>161,759</u>
<i>Shareholders' Equity</i>		
Share capital		
3,000,000 Common shares . . . . .	3,000	3,000
Class A non-voting common shares (2016 — nil; 2015 — 840,000) . . . . .	—	21,000
Retained earnings . . . . .	12,572	25,706
Accumulated other comprehensive income (loss) . . . . .	3,813	(1,224)
	<u>19,385</u>	<u>48,482</u>
	<u>\$259,856</u>	<u>\$210,241</u>

### Assets

The most significant components of Trisura Guarantee's assets are, in the order presented in the consolidated statements of financial position: investments, accounts receivable, deferred acquisition costs and the reinsurers' share of unearned premiums and unpaid claims and loss adjustment expenses.

#### Investments

Investments are primarily funded by shareholders' equity (share capital and retained earnings), unearned premiums and unpaid claims and loss adjustment expenses, net of the reinsurers' share of the latter two items and deferred acquisition costs, net of reinsurers' deferred commissions.

Investments comprise bonds, preferred and common shares, and units of real estate investment trusts, all of which were held in investment grade and TSX-traded large-cap Canadian companies pursuant to TGI's investment policy up until the end of 2015. In 2016, a small portion of the common shares were held in large-cap U.S. companies.

The market value asset allocation targets, ranges and credit quality prescribed by TGI's investment policy and TGI's actual holdings by asset class are as follows:

Asset Class	Target Allocations	Allowable Range	Minimum Credit Quality	Average Credit Quality	Holdings as at December 31, 2016	Holdings as at December 31, 2015
Short-term . . . . .	4%	0% - 40%	R-1(low)	R-1(low)	6.3%	4.1%
Bonds . . . . .	63%	40% - 90%	BBB-	A	61.2%	66.6%
Preferred shares . . . . .	10%	0% - 20%	P-3/TSX Listed	P-2	10.8%	9.1%
Common shares <sup>(1)</sup>		0% - 25% <sup>(2)</sup>			21.7%	20.2%
— Canadian . . . . .	20%	0% - 25%	S&P/TSX Listed		20.3%	19.9%
— U.S. . . . .	3%	0% - 5%	NYSE/Nasdaq Listed		1.4%	0.3%

(1) Includes real estate investment trusts.

(2) Subject to a limit of no more than 45% of TGI's shareholder's equity (equals \$30.0 million as at December 31, 2016).

The return on TGI's investment portfolio was 6.8% in the year ended December 31, 2016 compared to -2.1% in the year ended December 31, 2015. The return in 2015 reflected the large decrease in the market value of TGI's common and preferred shareholdings in that year, which subsequently reversed in 2016.

All investments are shown at market value as at the date of the consolidated statements of financial position, with changes in market value reflected in accumulated other comprehensive income unless an investment is deemed impaired, in which case the accumulated loss (net of the income tax reduction associated with it) is reflected in retained earnings. Realized capital gains and losses are reflected with any impairment losses in investment income in the year they occur.

#### *Accounts Receivable*

Accounts receivable mainly comprise amounts due from insurance brokers, who are generally required to remit amounts owing by their clients within 60 days of the end of the month in which the bonds or policies become effective, and installment premiums receivable on multi-year policies, the annual premium for which becomes payable 60 days following each anniversary date.

Accounts receivable fluctuate from year to year, based on (i) how much gross premiums are written in the two months preceding the date of the consolidated statements of financial position; and (ii) the year in which programs with multi-year policies are renewed.

Accounts receivable as at December 31, 2016 were \$18.8 million compared to \$15.9 million as at December 31, 2015. This 18.3% increase was in line with the growth of the business in 2016 over 2015, much of it being attributable to the risk solutions business.

#### *Deferred Acquisition Costs*

Acquisition costs comprise commissions paid to insurance brokers and premium taxes (which are charged at varying rates, generally averaging 3.0% to 4.0% of gross premiums written, by all provinces and territories in Canada on P&C insurance products issued in the province or territory). These costs are deferred and amortized on the same basis as the related premiums are earned, which is generally on a straight-line basis over the term of the underlying bond or policy (or, in the case of risk solutions, warranty).

A major portion of the deferred acquisition costs is attributable to business written in the risk solutions business which has a number of programs with a significant commission component and the underlying policies have terms that can be up to 10 years. The risk solutions business accounts for most of the growth in the deferred commissions since 2014 in excess of the underlying growth rate of the other two business lines.

Deferred acquisition costs as at December 31, 2016 were \$31.0 million compared to \$25.9 million as at December 31, 2015. This 19.8% increase was again in line with the growth of the business in 2016 over 2015, much of it being attributable to the risk solutions business.

### *Reinsurers' Share of Unearned Premiums and Unpaid Claims and Loss Adjustment Expenses*

The reinsurers' share of unearned premiums and unpaid claims and loss adjustment expenses are presented as assets on a basis consistent with the methods used to determine the unearned premium liability and the unpaid claims liability, respectively. The former represents the premiums ceded to the reinsurers under the various reinsurance arrangements that attach to the underlying policies and bonds in the surety, specialty insurance solutions and risk solutions businesses, all of which are deferred and amortized over the term of those policies and bonds. The latter represents that portion of the unpaid claims and loss adjustment expenses set by Trisura Guarantee that have been allocated to the reinsurers based on the relevant terms of the reinsurance agreements with Trisura Guarantee.

The reinsurers' share of unearned premiums and unpaid claims and loss adjustment expenses as at December 31, 2016 was \$47.1 million compared to \$37.1 million as at December 31, 2015. This 27.1% increase was again attributable to the risk solutions business, and arose from the growth of an extended warranty program and early renewals of annual policies under another program, both of which are fronted (see “— Business Line Analysis — Risk Solutions”).

### ***Liabilities and Shareholders' Equity***

#### *Liabilities*

The most significant components of Trisura Guarantee's liabilities are, in the order presented in the consolidated statements of financial position: reinsurance premiums payable, unearned premiums, unpaid claims and loss adjustment expenses, bank loan, and liabilities to participating shareholders.

#### Reinsurance Premiums Payable

Reinsurance premiums payable are the unpaid amounts owing to the reinsurers as determined monthly under the terms of the various reinsurance agreements. Most of the agreements require quarterly payment of the ceded premium owing within 60 days of the end of each quarter, whereas others require fixed quarterly instalments with the residual amount owing (or receivable) paid within 60 days of year-end after the final balances are confirmed.

Reinsurance premiums payable as at December 31, 2016 were \$13.5 million compared to \$8.3 million as at December 31, 2015. This 61.8% increase was a result of the growth of fronted programs in the risk solutions business in the latter part of 2016 compared to 2015.

#### Unearned Premiums

Unearned premiums are the most significant liability on Trisura Guarantee's consolidated statements of financial position, representing the deferred portion of gross premiums written that will be credited to revenue over the remaining terms of the underlying bonds and policies that have been issued as at the statement date. On an overall basis, unearned premiums as at December 31, 2016 were \$90.6 million compared to \$71.5 million as at December 31, 2015, a 26.8% increase over this period.

By business line, risk solutions has the greatest unearned balance, reflecting the average term of the business it writes. As at December 31, 2016, this balance amounted to \$43.7 million as compared to \$29.9 million as at December 31, 2015. Specialty insurance solutions has a significant balance, reflecting the three-year policies it writes, mainly in the D&O insurance and E&O insurance product lines. As at December 31, 2016, the specialty insurance solutions balance amounted to \$26.9 million as compared to \$24.4 million as at December 31, 2015. The surety business writes a significant volume of business, but the average term of its bonds is less than one year and it generally peaks in the summer months; consequently, the unearned portion is correspondingly smaller at year-end. As at December 31, 2016, the surety balance amounted to \$19.2 million as compared to \$16.7 million as at December 31, 2015.

### Unpaid Claims and Loss Adjustment Expenses

Unpaid claims and loss adjustment expenses reflects the provision for case claims based on management's best estimates at the reporting date of what the ultimate claims will be, and a provision for IBNR losses. IBNR comprises a provision for claims that have been incurred as at the reporting date but have not yet been reported and a provision for the possibility that the provision for case claims may ultimately be understated. The provision for IBNR is currently reviewed at the end of the second quarter of each year and validated at the end of each financial year by TGI's appointed actuary. Henceforth, the provision for IBNR will be reviewed at the end of the first, second and third quarters by TGI's appointed actuary and will continue to be validated by TGI's appointed actuary at the end of each financial year.

Management adjusts its provisions for IBNR to align with what TGI's appointed actuary determines to be appropriate. These adjustments are reflected at the time they are made in the consolidated statement of comprehensive income under claims and loss adjustment expenses and, where applicable, the reinsurers' share of these expenses.

On an overall basis, unpaid claims and loss adjustment expenses as at December 31, 2016 were \$67.5 million compared to \$49.5 million as at December 31, 2015, a 36.4% increase over this period. As at December 31, 2016 and 2015, unpaid claims and loss adjustment expenses amounted to the following in each of the three major business lines:

<u>(in \$ thousands)</u>	<u>2016</u>	<u>2015</u>
Risk solutions . . . . .	\$29,005	\$14,241
Specialty insurance solutions . . . . .	21,301	20,643
Surety . . . . .	15,305	14,492

The risk solutions balance as at December 31, 2016 included a provision of \$10.7 million for the TG Risk Solutions Claim inclusive of IBNR. In addition, it included an \$18.0 million aggregate provision for claims under a hybrid E&O insurance program, all of which have been reinsured by a captive unlicensed reinsurer. As at December 31, 2015, the aggregate provision for this program was \$13.8 million. The increase in the balances for the other two businesses were commensurate with their growth.

### Bank Loan

On August 4, 2016, TG Holdco finalized an arrangement to borrow \$35.0 million from a major Canadian financial institution (the "**TG Credit Facility**") for the purpose of redeeming the balance of its Class A non-voting common shares that were still outstanding at that time, as well as issuing a dividend equal to the \$16.1 million of accumulated value accretion associated with those shares. The dividend was paid and the shares were redeemed on August 5, 2016.

The TG Credit Facility was arranged by way of a five-year lending facility funded through short-term bankers' acceptances or Canadian prime rate advances. The rate is based on the current period's bankers' acceptance rate or Canadian prime rate, plus a margin. The loan balance is accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consists only of interest, with no mandatory principal payments required.

While the loan remains outstanding, the TG Credit Facility limits the distributions that may be made to the shareholders of TG Holdco, stipulates the maximum acceptable leverage ratio (debt divided by debt plus shareholders' equity and liabilities to participating shareholders) and the minimum acceptable consolidated net worth (shareholders' equity plus liabilities to participating shareholders) of Trisura Guarantee at any time, and incorporates other such restrictions, requirements and covenants.

The loan is secured by a general security agreement and a pledge of the outstanding common shares of TGI.

In December 2016, TGI paid a dividend of \$1.3 million to TG Holdco which TG Holdco used to reduce the borrowing by \$900.0 thousand and to pay the interest on the renewal of a 90-day bankers' acceptance issued under the TG Credit Facility.

#### Liabilities to Participating Shareholders

The nature of the liabilities to participating shareholders is described under “— Critical Accounting Estimates” and the annual changes to the balance are discussed under “— Results of Operations”. The balance as at the date of the consolidated statement of financial position represents the put value of the common shares of TG Holdco that are held by the TG Management Group. Members of the TG Management Group have, since 2012, held approximately 2.0 million common shares of TG Holdco (approximately a 40.0% interest), the amount varying from year to year depending on when shares of departing shareholders are tendered for redemption and when shares are acquired by other members of the TG Management Group.

As at December 31, 2016, members of the TG Management Group held 1,998,500 common shares of TG Holdco with a put value of \$8.01 per share, resulting in total liabilities to participating shareholders of \$16.0 million.

#### *Shareholders' Equity*

As at December 31, 2016, shareholders' equity comprised the 3.0 million common shares of TG Holdco held by Brookfield Asset Management (indirectly), retained earnings and accumulated other comprehensive income. The 1,998,500 common shares of TG Holdco held by the TG Management Group are separately recognized as a liability under IFRS. See “— Critical Accounting Estimates”.

Up until August 5, 2016, 760,000 Class A non-voting common shares of TG Holdco with a stated value of \$19.0 million and a value increment of \$16.1 million were outstanding, following the redemption of 80,000 of these shares on April 18, 2016 at their stated value of \$2.0 million plus a value increment of \$1.6 million. The value increment was a calculated amount specified in the articles of TG Holdco, being equal to 8.0% per annum of their stated value calculated from the date the shares were issued to the day preceding their redemption date less any dividends paid on these shares.

On August 5, 2016, the outstanding Class A non-voting common shares were paid a dividend of \$16.1 million and were then redeemed for their stated value of \$19.0 million using the proceeds of the bank loan obtained under the TG Credit Facility.

The balance in retained earnings of \$12.6 million as at December 31, 2016 compared to that of \$25.7 million as at December 31, 2015 reflects the impact of the payment of the value increments on the two redemptions of the Class A non-voting common shares in 2016.

### **Liquidity and Capital Resources**

#### *Liquidity*

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet short-term and long-term cash requirements. Trisura Guarantee's sources of funds consists primarily of net premiums written, fee income and investment income. Funds are used primarily to pay claims, operating expenses, dividends, to service debt on the TG Credit Facility and to purchase investments.

Management anticipates that positive cash flows from operations (Trisura Guarantee's underwriting activities and investment income) should be sufficient to cover cash outflows under most loss scenarios for the near term. To further ensure the sufficiency of funds to settle unforeseen claims, Trisura Guarantee's investments are readily convertible into cash. Trisura Guarantee intends to rely on funds from operations to satisfy both its internal and OSFI's prudential capital requirements. The significance of the funds generated by its operations are discussed under “— Cash Flows”.

Despite management's safeguards, if paid losses accelerate beyond Trisura Guarantee's ability to fund such paid losses from current operating cash flows, it may need to liquidate a portion of its investment portfolio or arrange for financing. Potential events causing such a liquidity strain could include several significant claims occurring in a relatively short period of time, large uncollectible reinsurance recoverables on paid losses or significant declines in the value of Trisura Guarantee's investment portfolio.

## Cash Flows

The table below summarizes the cash flows from operating activities and their uses in financing and investment activities for the periods indicated:

<u>(in \$ thousands)</u>	<u>Year ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities . . . . .	<u>\$ 32,806</u>	<u>\$ 20,878</u>	<u>\$ 15,031</u>
Cash flows used in financing activities			
Dividends paid . . . . .	(17,702)	(1,000)	(881)
Redemption, Class A non-voting common shares . . . . .	(21,000)	(2,000)	(2,000)
Repayment, note payable . . . . .	(343)	(792)	(607)
Bank loan . . . . .	34,100		
	<u>(4,945)</u>	<u>(3,792)</u>	<u>(3,488)</u>
Cash flows used in investing activities			
Capital assets . . . . .	(540)	129	(304)
Intangible assets . . . . .	(227)	(181)	(903)
Investments, net of disposals . . . . .	(16,312)	(12,016)	(10,460)
	<u>(17,079)</u>	<u>(12,068)</u>	<u>(11,667)</u>
Net increase/decrease in cash and cash equivalents during the period . . . . .	10,782	5,018	(124)
Cash and cash equivalents, beginning of period . . . . .	18,596	13,578	13,702
Cash and cash equivalents, end of period . . . . .	<u>\$ 29,378</u>	<u>\$ 18,596</u>	<u>\$ 13,578</u>

### Cash Flows from Operating Activities

Premiums, net of the commissions paid to brokers, are generally collected within 60 days of bonds and policies being issued. Premium payments to reinsurers, net of their share of claims paid, generally occur quarterly, as with the payment of provincial and territorial premium taxes. Overhead expenses, the most significant being employee costs, represent a steady outflow of cash. Conversely, the nature of claims is such that they may not be paid for months, or years, following receipt of the original premium. The result of this timing difference is a cash float that Trisura Guarantee has available for liquidity purposes and to otherwise invest and generate investment income. Trisura Guarantee focuses on the profitability of its underwriting operations, but its investment portfolio is another meaningful source of income. Trisura Guarantee's liquidity therefore derives to a significant degree from the cash float provided by its underwriting activities.

Cash flows from operating activities increased by 57.1% in 2016 compared to 2015, from \$20.9 million to \$32.8 million. The increase was primarily attributable to the growth of the risk solutions business, and included a large increase in reinsurance premiums payable under a funds withheld security arrangement.

Cash flows from operating activities increased by 38.9% in 2015 compared to 2014, from \$15.0 million to \$20.9 million. The increase was primarily attributable to a decrease in accounts receivable following the receipt of a significant balance recoverable under a contract surety claim along with an improvement in the collection of premiums receivable from brokers, combined with a significant increase in 2015 of the liabilities to participating shareholders, which is a non-cash item.

### Cash Flows used in Financing Activities

Up until 2016, Trisura Guarantee relied exclusively on its shareholders, and the comprehensive income generated by its operations, to satisfy its capital requirements.

Commencing in 2012, Trisura Guarantee started to redeem the \$27.0 million in Class A non-voting common shares of TG Holdco that, along with the \$3.0 million in common shares, were held by Brookfield Asset Management.

In August 2016, Trisura Guarantee used the \$35.0 million loan obtained under the TG Credit Facility to redeem the balance of the Class A non-voting common shares of TG Holdco that were still outstanding and pay

a dividend equal to the accumulated value accretion on those shares. Trisura Guarantee currently intends to renew the TG Credit Facility when it expires in 2021 and to repay the loan from funds derived from its operations.

Cash flows used in financing activities increased by 30.4% in 2016 compared to 2015, from \$3.8 million to \$4.9 million. The increase was primarily the result of TG Holdco repaying \$900.0 thousand of the loan obtained under the TG Credit Facility in December 2016.

Cash flows used in financing activities increased by 8.7% in 2015 compared to 2014, from \$3.5 million to \$3.8 million. The increase was attributable to an increase in 2015 of the accumulated value accretion paid on the redemption of Class A non-voting common shares of TG Holdco combined with an increase in the amount repaid on the note payable to Brookfield Asset Management (discussed under “— Transactions with Related Parties”).

#### *Cash Flows used in Investing Activities*

The investments held by Trisura Guarantee comprise Canadian government bonds, Canadian investment grade corporate bonds, Canadian preferred shares rated P3 or higher, common shares, and units of Canadian real estate investment trusts. See “— Financial Position — Assets — Investments”. Of the common shares held as investments, less than 7.0% are held in large-cap U.S. corporations; the balance are held in Canadian, TSX-traded large-cap stocks. Because all of these investments are readily convertible into cash, Trisura Guarantee’s investment portfolio is a ready source of cash if required.

Cash flows used in investing activities increased by 41.5% in 2016 compared to 2015, from \$12.1 million to \$17.1 million. Of this, \$4.3 million was attributable to greater net purchases of investments in 2016, and the balance pertained to the expenditures associated with Trisura Guarantee’s Toronto office expansion.

Cash flows used in investing activities increased by 3.4% in 2015 compared to 2014, from \$11.7 million to \$12.1 million. This increase was primarily attributable to an increase in the net purchases of investments in 2015 relative to 2014 offset by the purchase of the L’Unique client list in 2014.

#### ***Regulatory Capital Management***

Under OSFI’s MCT, Regulatory Capital and Internal Capital Targets, and Own Risk and Solvency Assessment Guidelines, TGI is required to maintain a level of available capital (shareholders’ equity after specified adjustments) which equals a multiple of its required capital. Required capital is a formula-based determination set out under the MCT Guideline, which applies capital charges against an insurance company’s assets and liabilities based on the assessed risk of overstatement (if an asset, because of market and credit (collection) risk associated with investments, accounts receivable, and the reinsurers’ share of unpaid claims and loss adjustment expenses, for example) or understatement (if a liability, because of the insurance risk associated with unearned premiums being insufficient to cover future claims and expenses, and the provision for unpaid claims and loss adjustment expenses being insufficient to cover the ultimate payments associated with the claims). A formula-based capital charge is also made for operational risk (the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events), and then a formula-based diversification credit is applied because losses arising across some risk categories are not perfectly correlated with each other (the risk categories being credit, market and insurance).

The Regulatory Capital and Internal Capital Targets Guideline states that available capital for a P&C insurance company must not be less than 150.0% of required capital. In industry parlance, a company’s MCT must not fall below 150.0%, this minimum being called the supervisory target. The Guideline further stipulates that a company must establish its own internal target, which must be at least equal to the supervisory target and derived by way of the company’s own risk and solvency assessment (“ORSA”), the requirements for which are set out in the Own Risk and Solvency Assessment Guideline.

TGI is required to conduct its ORSA annually or more frequently if warranted by the circumstances, and report its findings to the board of directors of TGI. The internal target is calculated using a Key Metrics Report provided by OSFI for this purpose, which derives from the ORSA process. Once the ORSA is approved by the board of directors, the Key Metrics Report is filed with OSFI. Based on its ORSA performed in 2016 and

approved by the board of directors at its meeting of October 18, 2016, TGI confirmed its internal target of 215.0% of required capital. As at December 31, 2016, TGI's MCT was 272.0%.

### Summary of Contractual Obligations

Trisura Guarantee's long-term obligations as at December 31, 2016 comprise the bank loan obtained under the TG Credit Facility, a note payable to Brookfield Asset Management (discussed under "— Transactions with Related Parties"), and premises leases for its offices across Canada, as set out in the following table:

(in \$ thousands)	Payments Due By Period				
	Total	0 - 1 year	1 - 3 years	4 - 5 years	After 5 years
Bank loan . . . . .	\$34,100	\$—	\$ —	\$34,100	\$ —
Note payable to Brookfield Asset Management . . . . .	530	—	—	—	530
Lease commitments . . . . .	4,109	756	1,452	1,147	754
Total contractual obligations . . . . .	<u>\$38,739</u>	<u>\$756</u>	<u>\$1,452</u>	<u>\$35,247</u>	<u>\$1,284</u>

### Appointed Actuary

In accordance with the ICA, the board of directors of TGI has appointed a Fellow of the Canadian Institute of Actuaries as the appointed actuary (the "Appointed Actuary"). The Appointed Actuary is required to value the policy liabilities of TGI as at the end of each financial year in accordance with accepted actuarial practices, with such changes as may be determined or such directions as may be made by OSFI, including selection of appropriate assumptions and methods, and provide an opinion as to whether the amount of policy liabilities make appropriate provision for all policyholder obligations and whether the valuation of policy liabilities is fairly presented in the consolidated financial statements. At least once in each financial year, the Appointed Actuary must meet with the board of directors, or the audit committee of the board of directors, of TGI to report, in accordance with accepted actuarial practices, with such changes as may be determined or such directions may be made by OSFI, on the current and expected future financial condition of TGI. The Appointed Actuary is also required to report to the CEO and the CFO of TGI if the Appointed Actuary identifies any matters which, in the Appointed Actuary's opinion, have material adverse effects on the financial condition of TGI.

### Transactions with Related Parties

Trisura Guarantee has entered into outsourcing arrangements with Brookfield Asset Management and an entity subject to common control with respect to the provision by them of information technology, internal audit and investment management services. Trisura Guarantee also leases office facilities from companies subject to common control. In addition, it occasionally issues surety bonds and insurance policies on behalf of, or for, certain companies under common control. These transactions are conducted in the normal course on market terms and are accordingly measured at the amount of consideration paid or established and agreed upon. Trisura Guarantee has also entered into tax transfer arrangements with Brookfield Asset Management, as permitted under applicable income tax legislation and the ICA.

In 2016, Trisura Guarantee sublet, at cost, part of its office premises to a new company established by Brookfield Asset Management under a five-year sub-lease.

Up until 2012, Trisura Guarantee permitted certain employees to acquire common shares of TG Holdco from treasury under a TG SPP (as defined below) in return for promissory notes secured by the shares and bearing interest at the bank prime rate plus 1.0%. The interest on the promissory notes and the principal do not become payable until the acquired shares are sold or redeemed by Trisura Guarantee, although both may be prepaid in whole or in part at any time. The interest receivable on these notes is included in accounts receivable in the consolidated statements of financial position.

On December 31, 2012, Trisura Guarantee redeemed 500.0 thousand common shares of TG Holdco held by Brookfield Asset Management in exchange for a note payable of \$2.8 million. The note payable has a term of 10 years and accumulates interest at the bank prime rate plus 1.0%, payable annually. Brookfield Asset Management will transfer its interest in this note payable to Trisura Group in connection with the spin-off (see



“Selected Pro Forma Financial Information”). Correspondingly, Trisura Guarantee established a new TG SPP as of December 31, 2012 which permits certain employees to acquire common shares of TG Holdco from treasury (500.0 thousand in total) in return for promissory notes secured by the shares, bearing interest at the bank prime rate plus 1.0%, and repayable by way of semi-monthly payroll deductions set so the promissory notes would be repaid in full within 10 years. Employees are permitted to prepay the promissory notes in whole or in part at any time, and must repay the promissory notes and interest outstanding if they sell their shares. Trisura Guarantee’s practice has been to apply all payments received from employees against the note payable on a monthly basis.

### **Risks Relating to Financial Instruments**

As a provider of insurance products, effective risk management is critical to Trisura Guarantee’s ability to protect the interests of its stakeholders. Significant risks include those associated with losses from insurance contracts as well as risks associated with the financial instruments that it holds. Policies have been established with respect to the identification and management of risks associated with both insurance contracts and financial instruments.

The significant risks related to insurance contracts are discussed under “Risk Factors”. The significant risks related to financial instruments are credit risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk). The following describes how Trisura Guarantee manages these risks. See note 8 to the audited consolidated financial statements of TG Holdco included elsewhere in this prospectus for further details.

#### ***Credit Risk***

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause Trisura Guarantee to incur a financial loss. Credit risk arises mainly from investments in bonds and short-term securities.

Trisura Guarantee has an investment policy in place that requires bonds and short-term investments to be in Canadian dollars and to meet certain criteria in terms of credit rating, exposure to any entity or group of related entities (other than governments), and diversification by industry. Management monitors credit quality on an ongoing basis and reviews the investment portfolio regularly with TGI’s board of directors.

#### ***Market Risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risks such as equity risk.

##### ***Currency Risk***

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Trisura Guarantee has limited exposure to currency risk. Nearly all of its investments are located in Canada and denominated in Canadian dollars, the exception being small holdings in U.S. equities that are limited to 3.0% of the market value of the investment portfolio. Management monitors any foreign exchange risk associated with its investments closely and ensures that the potential risk does not become material.

##### ***Interest Rate Risk***

Interest rate risk is the potential for financial loss resulting from changes in interest rates. Bonds and preferred shares are subject to interest rate risk although, in the case of bonds, to the extent they are held to maturity, the risk is limited to the reinvestment yield being different from the original yield to maturity. With respect to the fair value of bonds and preferred shares, it will change inversely with changes in market rates of interest, with greater impact to bonds with higher durations.

Trisura Guarantee’s investment policy specifies the average and maximum duration of bonds held so as to reduce the impact of interest rate risk. A similar provision is in place for preferred shares, all of which must have a “rate reset” feature.

*Other Price Risk*

Equity risk is the major component of other price risk. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

Trisura Guarantee's investment policy incorporates specific guidelines and limitations with respect to the equities that may be held that are intended to provide for prudent investment in equity markets. The investment policy also limits the fair value of equities to a maximum percentage of the overall investment portfolio and of available capital under OSFI's MCT.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — TRISURA INTERNATIONAL

*The following discussion and analysis provides information concerning Trisura International's financial condition and results of operations. This discussion and analysis should be read in conjunction with the audited consolidated financial statements of Trisura International Holdco as at December 31, 2016 and 2015 and for each of the years in the three-year period ended December 31, 2016 and the notes thereto. The consolidated financial statements, which are contained elsewhere in this prospectus, were prepared in accordance with IFRS.*

*Some of the information contained in this discussion and analysis contains forward-looking statements that involve risks and uncertainties. See "Special Note Regarding Forward-Looking Information" and "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those described in "Risk Factors" and elsewhere in this prospectus.*

*All references to Trisura International are to the consolidated operations and financial results of Trisura International Holdco (formerly Imagine Group Holdings Limited) and its wholly-owned reinsurance subsidiaries, Trisura International Insurance (formerly Imagine Insurance Company Limited) and Imagine Asset Services dac (formerly Imagine International Reinsurance dac) (a company incorporated in Ireland).*

### Overview of Business

#### ***Business Background***

Trisura International is a diversified specialty insurance company headquartered in Bermuda. Trisura International provides reinsurance and insurance products in a diversified range of P&C, life and health classes to the specialty insurance marketplace. It was founded by Brookfield Asset Management in 2001. At the end of 2008, due to a declining reinsurance market, the worldwide financial crisis and Brookfield Asset Management's alternative uses for capital, Trisura International ceased writing new business and requested the withdrawal of its A.M. Best ratings. Subsequently, Trisura International has been actively managing its portfolio of in-force reinsurance contracts while looking for new opportunities in a highly competitive reinsurance market.

Trisura International has employed the following principal approaches in managing its in-force reinsurance contracts:

- Sales of subsidiaries, together with the in-force reinsurance contracts of such subsidiaries.
- Commutations whereby Trisura International and the reinsured party agree in writing to terminate the reinsurance contract. These commutations are typically carried out in accordance with commutation bases set out in the original reinsurance contracts. In many instances, commutations enable the reinsured parties to obtain a refund of some of the reinsurance premium paid for the original reinsurance contract. In other cases, commutation enables the reinsured parties to avoid paying additional reinsurance premiums or contract maintenance fees to Trisura International.
- Novations whereby Trisura International enters into a written agreement with the reinsured party and another reinsurer, such that the other reinsurer takes over all rights and obligations of Trisura International under the original reinsurance contract. Typically, Trisura International makes a novation payment to the other reinsurer to compensate the new reinsurer for taking over the original reinsurance contract.
- In other cases where the above three approaches are not possible, Trisura International continues to meet all claim payment and other contractual obligations to the reinsured parties. Claims consultants are regularly engaged to review claims handling and settlement processes.

#### ***Revenue***

Trisura International ceased writing new business at the end of 2008. Therefore, Trisura International no longer receives reinsurance premiums (other than occasional, modest adjustment reinsurance premiums on some in-force reinsurance contracts). Since the end of 2008, Trisura International's revenue consists primarily of investment income derived from assets supporting its claims reserves and its shareholder's equity.

## Claims and Expenses

Trisura International's costs consist principally of claims and claims adjustment expenses (both known and estimated, based on claims reported and unreported, the latter being actuarially determined) and operating expenses. A significant portion of Trisura International's operating expenses consist of employee compensation and benefits.

## Regulation

Trisura International Insurance is subject to regulation by the Financial Services Commission in Barbados. Changes in these regulations could significantly affect its operations and financial results. See "Risk Factors" for further details.

Imagine Asset Services dac, a wholly-owned subsidiary of Trisura International Holdco, is subject to regulation by the Central Bank of Ireland. However, the company commuted its last remaining reinsurance contract in December 2016. In January 2017, it commenced the withdrawal of authorization process with the Central Bank of Ireland, at the conclusion of which Imagine Asset Services dac will no longer be a reinsurance company and will no longer be subject to regulation by the Central Bank of Ireland.

## Outlook

When it ceased writing new business at the end of 2008, Trisura International had total reserves of US\$1.2 billion and 128 in-force reinsurance contracts. The table below presents total reserves and numbers of in-force reinsurance contracts as at the dates indicated:

(in US\$ thousands)	As at December 31,		
	2016	2015	2014
Total reserves (in US\$ thousands) . . . . .	\$73,834	\$88,225	\$129,303
Number of in-force reinsurance contracts . . . . .	15	21	34

As at December 31, 2016, the largest in-force reinsurance contract is the GAO Life Reinsurance Contract (discussed under "Business of Trisura Group — Business Lines — Reinsurance"). This contract has reserves of US\$54.2 million (or 73.4% of total reserves) and provides protection to the reinsured in the event that its policyholders exercise GAOs on a closed block of deferred pension policies in Ireland. All of the other remaining contracts are P&C reinsurance contracts providing cover, mainly in the U.S., for (i) workers' compensation; (ii) auto (liability and property damage); (iii) professional indemnity; (iv) construction defect; (v) contractors' liability; and (vi) general liability.

Trisura International's reinsurance contracts were typically written on a structured basis providing contractual provisions to address specific client needs. Contractual protections, including aggregate liability caps, sliding ceding and profit commissions, deductibles, experience accounts and other features, enable Trisura International to share both the upside and a portion of the downside with clients based on actual reinsurance contract experience. In particular, all of the remaining in-force reinsurance contracts have contractual liability caps which place limits on Trisura International's potential claims.

Trisura International intends to continue to manage its portfolio of in-force reinsurance contracts seeking commutations and novations where practicable. Following completion of the spin-off, Trisura International is expected to commence writing new reinsurance business as a multi-line reinsurer in the international reinsurance markets. Initially, its business plan will be to operate in the reinsurance markets in support of the operations of Trisura Guarantee and Trisura US, and will continue to consider growth opportunities.

As at December 31, 2016, Trisura International is involved in two ordinary course legal disputes under which it is seeking recoveries from its counterparties to reinsurance contracts. Formal legal proceedings for both of these disputes commenced in late 2016. Trisura International, with the assistance of external legal advisors, will continue to vigorously pursue these recovery actions.

## **Critical Accounting Estimates**

The preparation of Trisura International's consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of its accounting policies and the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and such differences may be material. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Key sources of estimation uncertainty and critical judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are outlined below.

### ***Unpaid Claims and Claims Adjustment Expenses***

The liability for claims and claims adjustment expenses represents the estimates of the ultimate cost of all claims incurred but not paid by the date of the consolidated statements of financial position. The principles governing the setting of reserves are covered by Trisura International's reserving policy which is subject to annual review and ratification process by the audit and risk committee and the board of directors of Trisura International Holdco. The reserving process includes consideration of individual case estimates received from ceding companies and a provision for claims and claims adjustment expenses related to IBNR claims, including expected development on reported claims. The IBNR provisions for P&C reinsurance contracts are established by qualified in-house actuaries. The reserves for the GAO Life Reinsurance Contract are established by an external internationally recognized actuarial consultancy firm.

Inherent in the estimate of ultimate claims cost are expected trends in frequency, claim severity, timing of claim payments, interest yields, reporting and adjusting lags, potential disputes and other factors that could vary significantly as claims are settled. The GAO Life Reinsurance Contract is exposed to the rate of take-up of the GAOs and future interest rates, both of which are inherently uncertain. Accordingly, ultimate claims could differ, perhaps substantially, from the estimate recorded in Trisura International's consolidated financial statements. These estimates are regularly reviewed and, as adjustments become necessary, such adjustments are reflected in profit or loss for the year in which the adjustment is made.

### ***Investments***

Investments in fixed maturities are classified as AFS or FVTPL. Investments classified as AFS are measured at fair value and unrealized gains and losses arising from changes in such fair value are included within other comprehensive income in the consolidated statement of profit or loss and other comprehensive income until the investment is derecognized or is determined to be impaired. Investments classified as FVTPL are also measured at fair value but changes therein are recognized within net investment income on the consolidated statement of profit or loss and other comprehensive income.

Short-term investments, which have a maturity of three months to one year at the date of acquisition, are classified as AFS and carried at amortized cost, which approximates their fair value.

A number of Trisura International's accounting policies and disclosures require the measurement of fair values for financial assets. Trisura International has an established control framework with respect to the measurement of fair values which includes input from its external investment managers that have overall responsibility for overseeing the significant fair value measurements of the assets they manage.

### ***Structured Insurance Assets***

Trisura International has invested in structured insurance assets, which consist of assets sourced from insurance or insurance related business. Its remaining structured insurance asset as at December 31, 2016 relates to a transaction which occurred in 2005 where it received the assignment of the right to receive commission payments on U.S. long-term care insurance policies written by three U.S. life assurance companies. The commissions are paid into a trust which distributes the amounts due to Trisura International on a pre-agreed formula based on the amount of commissions collected net of the expenses of the trust.

This structured insurance asset was designated on inception as a financial asset at FVTPL, as it is managed and its performance is evaluated on a fair value basis, in accordance with Trisura International's documented investment strategy for these investments. In the absence of an active market, the fair value of this financial asset has been determined by a proprietary valuation model, which reflects that the commissions due have credit and actuarial risks. Trisura International takes on the credit risk of the three insurance carriers who have the ultimate payment obligation. The majority of these insurance carriers have A.M. Best long-term issuer credit ratings of "A" or better. In addition, Trisura International takes on actuarial risk in the form of the uncertain timing and amount of future payment of the commissions. These can be interrupted or terminated if any of the following events occur: (i) the policy is cancelled by the insured or annual premiums are not paid; (ii) the insured becomes sick and makes a claim under the insurance policy; or (iii) the insured dies and the policy expires. These actuarial risks are modeled using data drawn from the insurance carriers, Society of Actuaries Long Term Care Studies, as well as data from other public and non-public sources supplemented (as appropriate) by assistance from external actuarial consultants, and are used to project the future commission payments. The valuation is based on discounting these projected commission payments using a U.S. Treasury yield curve adjusted for a credit margin reflecting the insurance carriers' credit risk of making these estimated commission payments over time. As at December 31, 2016, this asset was valued at US\$11.3 million.

### Consolidated Statements of Comprehensive Income

(in US\$ thousands)	Year ended December 31,		
	2016	2015	2014
Revenues			
Net investment income . . . . .	\$ 8,528	\$ 4,225	\$21,012
Fee (loss) income on investment contracts . . . . .	(571)	706	4,685
Total revenues . . . . .	7,691	7,481	26,894
Expenses			
Claims and claims adjustment expenses incurred . . . . .	4,268	(13,102)	31,063
Operating expenses . . . . .	3,871	4,654	5,226
Other comprehensive loss . . . . .	(938)	(931)	(175)
Total comprehensive (loss) income . . . . .	(2,157)	14,305	(9,886)

### Consolidated Statements of Financial Position

(in US\$ thousands)	As at December 31,		
	2016	2015	2014
Total assets . . . . .	\$118,682	\$142,670	\$165,486

See "— Financial Position" for further details.

### Results of Operations

Since the end of 2008, Trisura International has not written any new reinsurance contracts and hence has received no reinsurance premiums (other than occasional, modest adjustment reinsurance premiums on some in-force reinsurance contracts). Consequently, its revenues consist primarily of investment income derived from assets supporting its claims reserves and its shareholder's equity. During this period, its expenses have consisted principally of claims and claims adjustment expenses and operating expenses (a significant portion of which relate to employee compensation and benefits).

Many of the usual reinsurance performance indicators which involve premiums, such as premium volume, loss ratios and operating ratios and annual changes therein, are not relevant or useful in describing Trisura International's results and its period-to-period development and performance.

Total comprehensive income is management's preferred performance indicator as this provides the overall measure of the gain or loss from the management of the in-force portfolio of reinsurance contracts and assets. It encapsulates reserve strengthening or release, which frequently are main determinants of performance during this portfolio management phase, particularly so in a low interest rate environment where investment income provides only a modest contribution to profitability. Total comprehensive income also encapsulates total investment income regardless of whether such investment income is accounted for "above the line" in net investment income or "below the line" in other comprehensive income.

## ***Year Ended December 31, 2016 Compared to Year Ended December 31, 2015***

### *Net Investment Income*

Net investment income increased by 101.2% in 2016 compared to 2015, from US\$4.2 million to US\$8.5 million. This increase was largely due to (i) an increase in the valuation of the structured insurance asset as the result of an increase in the expected amount of future commissions inflows from this asset reflecting the continuation of the higher commission inflows experienced in 2016 (see “— Critical Accounting Estimates — Structured Insurance Assets” for further detail on structured insurance asset valuation) and (ii) market value gains on European sovereign bonds which occurred due to a reduction in European interest rates of approximately 0.2% during 2016. These assets support the GAO Life Reinsurance Contract and the investment gain thereon acts as an offset to reserve increases on this contract (discussed under “— Claims and Claims Adjustment Expenses Incurred” below).

### *Fee Income on Investment Contracts*

Fee income on investment contracts decreased from US\$706.3 thousand in 2015 to a US\$571.3 thousand loss in 2016. The fee income in 2015 was mainly due to the final determination of a one-time contingent commission which arose due to favourable development on a reinsurance contract which Trisura International novated in 2008.

The loss in 2016 arose mainly from an internal re-classification of a reinsurance contract. A corresponding gain was recorded within claims and claims adjustment expenses incurred.

### *Claims and Claims Adjustment Expenses Incurred*

Claims and claims adjustment expenses were US\$4.3 million in 2016 compared to savings of US\$13.1 million in 2015. In 2016, reserves on the GAO Life Reinsurance Contract were increased because the reduction in European interest rates during 2016 increased the cost of expected future annuity claims on this contract. This increase was offset by a favourable reserve development on the P&C contracts.

### *Operating Expenses*

Operating expenses decreased by 16.8% in 2016 compared to 2015, from US\$4.7 million to US\$3.9 million, continuing the trend in recent years of a reduction in staff costs and other operating expenses as the size and complexity of Trisura International has scaled back.

### *Other Comprehensive Loss*

Other comprehensive loss of US\$937.5 thousand in 2016 was similar to the 2015 loss of US\$930.5 thousand. The 2016 loss is the net effect of a market value loss on mortgage and asset backed securities offset by market value gains on the corporate bond portfolio.

### *Total Comprehensive (Loss) Income*

Trisura International experienced a comprehensive loss of US\$2.2 million in 2016 compared to comprehensive income of US\$14.3 million in 2015. This decrease is mainly a result of the significant increase in claims and claims adjustment expenses.

## ***Year Ended December 31, 2015 Compared to Year Ended December 31, 2014***

### *Net Investment Income*

Net investment income decreased by 79.9% in 2015 compared to 2014, from US\$21.0 million to US\$4.2 million. Net investment income in 2014 stemmed mainly from (i) an increase in the valuation of the structured insurance asset as the result of an increase in the expected amount of future commissions inflows from this asset reflecting the continuation of the higher commission inflows experienced in 2014 (see “— Critical Accounting Estimates — Structured Insurance Assets” for further detail on structured insurance asset valuation) and (ii) an increase in the market value of European sovereign bonds as a result of a reduction in

European interest rates of approximately 1.1%. These assets support the GAO Life Reinsurance Contract and the investment gain thereon acts as an offset to reserve increases on this contract (discussed under “— Claims and Claims Adjustment Expenses Incurred” below). In 2015, the contributions from these two sources were significantly lower.

#### *Fee Income on Investment Contracts*

Fee income on investment contracts decreased by 84.9% in 2015 compared to 2014, from US\$4.7 million to US\$706.3 thousand. The fee income in 2014 was mainly due to an increase in the estimated contingent commission to be received as a result of a favourable development on a reinsurance contract which Trisura International novated in 2008.

#### *Claims and Claims Adjustment Expenses Incurred*

Favourable claims development resulted in savings of US\$13.1 million on claims in 2015 compared to claims and claims adjustment expenses of US\$31.1 million in 2014 (which was mainly due to significant reserve increases on the GAO Life Reinsurance Contract as a result of European interest rate reductions). The savings in 2015 predominantly arose from the settlement of an ordinary course of business legal dispute with a reinsured party, and favourable developments on another legal dispute. These developments enabled a reduction to be made to certain precautionary provisions which had been previously established to cover potential negative outcomes on these disputes. Another favourable claim development resulted from the novation of a P&C reinsurance contract.

#### *Operating Expenses*

Operating expenses decreased by 10.9% in 2015 compared to 2014, from US\$5.3 million to US\$4.7 million, continuing the trend in recent years of a reduction in staff costs and other operating expenses as the size and complexity of Trisura International has scaled back.

#### *Other Comprehensive Loss*

Other comprehensive loss increased from US\$174.6 thousand in 2014 to US\$930.5 thousand in 2015. The loss in 2015 was due to market value losses on the corporate bond portfolio.

#### *Total Comprehensive (Loss) Income*

Comprehensive income increased in 2015 to US\$14.3 million compared to a comprehensive loss of US\$9.9 million in 2014. The 2015 result reflects the favourable outcomes on the legal disputes and favourable novation on the P&C reinsurance contract discussed under “— Claims and Claims Adjustment Expenses Incurred”. In contrast, the 2014 loss was driven mainly by reserve increases on the GAO Life Reinsurance Contract, partially offset by net investment income gains on the assets backing such contract.



## Financial Position

The table below presents selected financial position information for Trisura International as at the dates indicated:

(in US\$ thousands)	As at December 31,	
	2016	2015
<b>Assets</b>		
Investments (including cash and cash equivalents) . . . . .	\$117,348	\$138,616
Other assets . . . . .	1,334	4,054
<b>Total assets . . . . .</b>	<b>\$118,682</b>	<b>\$142,670</b>
<b>Liabilities</b>		
Claim reserves . . . . .	\$ 73,834	\$ 88,225
Reinsurance balances payable . . . . .	2,327	6,481
Loan payable . . . . .	—	5,000
Other liabilities . . . . .	4,209	2,495
<b>Total liabilities . . . . .</b>	<b>80,370</b>	<b>102,201</b>
<b>Shareholder's Equity</b>		
Share capital . . . . .	4,923	4,923
Retained earnings . . . . .	33,280	34,499
Other comprehensive income . . . . .	109	1,047
<b>Total shareholder's equity . . . . .</b>	<b>38,312</b>	<b>40,469</b>
<b>Total liabilities and shareholder's equity . . . . .</b>	<b>\$118,682</b>	<b>\$142,670</b>

### Assets

#### Investments

Investments are the most significant component of Trisura International's assets. In line with its investment guidelines, these investments consist predominantly of highly rated, liquid U.S. government securities, other sovereign bonds, corporate bonds and cash. The table below presents Trisura International's investment portfolio for the periods indicated:

(in US\$ thousands)	As at December 31, 2016		As at December 31, 2015	
		% of Total		% of Total
U.S. government and other sovereign bonds . . . . .	\$ 22,274	19.0%	\$ 26,525	19.1%
U.S. corporate securities . . . . .	14,465	12.3%	40,609	29.3%
Structured insurance assets . . . . .	11,254	9.6%	9,035	6.5%
Mortgage and asset backed securities . . . . .	384	0.3%	2,614	1.9%
Cash and cash equivalents . . . . .	68,971	58.8%	59,833	43.2%
<b>Total . . . . .</b>	<b>\$117,348</b>	<b>100%</b>	<b>\$138,616</b>	<b>100%</b>

As at December 31, 2016, 97.2% of Trisura International's investments (excluding cash and cash equivalents) have investment grade ratings (2015 — 89.7%). Management has assigned an "A" rating to the structured insurance assets as the majority of the underlying insurance carriers have A.M. Best long-term issuer credit ratings of "A" or better.

The return on Trisura International's investment portfolio was 5.6% in the year ended December 31, 2016 compared to 1.8% in the year ended December 31, 2015. The increase in the valuation of the structured insurance assets contributed significantly to the 2016 returns.

## ***Liabilities and Shareholder's Equity***

### *Liabilities*

The main component of Trisura International's liabilities are claim reserves which reflect provisions for case claims as reported by reinsured parties at the reporting date and an IBNR provision for claims and claims adjustment expenses related to IBNR claims, including expected development on reported claims. The reserves are reviewed regularly by Trisura International's in-house actuaries and in the case of reserves for its life reinsurance business, by external consulting actuaries.

The table below presents the breakdown of reserves for P&C and life reinsurance contracts for the periods indicated. Overall, reserves declined by US\$14.4 million from December 31, 2015 to December 31, 2016 as no new business has been written since the end of 2008 and claims are being paid and settled on the remaining in-force reinsurance contracts. The bulk of the reserve reduction in 2016 occurred on the P&C contracts due to claim payments of US\$8.3 million and the elimination of US\$5.3 million of reserves as a result of the commutation of six P&C reinsurance contracts in 2016. Claim payments of US\$8.3 million from the life reserves during 2016 was offset by reserve increases of US\$7.5 million on the GAO Life Reinsurance Contract for an overall net life reserve reduction of US\$800.0 thousand.

<u>(in US\$ thousands)</u>	<b>As at December 31,</b>	
	<b>2016</b>	<b>2015</b>
P&C reserves . . . . .	\$19,620	\$33,211
Life reserves . . . . .	54,214	55,014
Total reserves . . . . .	<u>\$73,834</u>	<u>\$88,225</u>

### *Share Capital and Shareholder's Equity*

The table below presents information on the share capital and shareholder's equity of Trisura International as at the dates indicated. The change in shareholder's equity in 2016 is attributable to the 2016 comprehensive loss of US\$2.2 million.

<u>Share Capital and Shareholder's Equity</u>	<b>As at December 31,</b>	
	<b>2016</b>	<b>2015</b>
Number of authorised shares (in thousands) . . . . .	75,000	75,000
Number of issued shares at US\$1.00 per share (in thousands) . . . . .	4,923	4,923
Share value (in US\$ thousands) . . . . .	\$ 4,923	\$ 4,923
Shareholder's equity (in US\$ thousands) . . . . .	\$38,312	\$40,469

## **Liquidity and Capital Resources**

### *Liquidity*

Liquidity is a measure of a company's ability to generate cash flows sufficient to meet short-term and long-term cash requirements.

Liquidity to fund the payout of Trisura International's claims reserves and cover operating expenses is provided by its existing portfolio of highly rated, liquid securities, consisting of cash and sovereign and corporate bonds, which are specifically held to support these reinsurance liabilities. These securities and the investment income thereon are expected to be sufficient to meet claim payout requirements. In the event that these assets are insufficient, any remaining reserves will be funded by Trisura International's shareholder's equity.

## Cash Flows

The table below summarizes the cash flows from operating activities and their uses in financing and investment activities for the periods indicated:

(in US\$ thousands)	Year ended December 31,		
	2016	2015	2014
<b>Cash Flows used in Operating Activities</b>			
Net (loss) income for the year . . . . .	\$ (1,219)	\$ 15,236	\$ (9,711)
Adjustments for investment income and gains . . . . .	(1,695)	(4,226)	(21,013)
Claims and claims adjustment expenses . . . . .	(14,391)	(41,078)	(27,020)
Other . . . . .	508	3,503	13,524
Net cash used in operating activities . . . . .	<u>(16,797)</u>	<u>(26,565)</u>	<u>(44,220)</u>
<b>Cash Flows from Investing Activities</b>			
Proceeds of investment sales net of investment purchases . . . . .	33,384	22,276	53,086
Interest received . . . . .	421	8,583	9,880
Other . . . . .	(2,870)	2,256	(1,784)
Net cash from investing activities . . . . .	<u>30,935</u>	<u>33,115</u>	<u>61,182</u>
<b>Cash Flows from Financing Activities</b>			
Share repurchase . . . . .	—	—	(8,898)
Net movement on loan payable . . . . .	(5,000)	—	5,000
Net cash used in financing activities . . . . .	<u>(5,000)</u>	<u>—</u>	<u>(3,898)</u>
Net increase in cash and cash equivalents during the year . . . . .	9,138	6,550	13,064
Cash and cash equivalents at beginning of the year . . . . .	59,833	53,283	40,219
Cash and cash equivalents at end of the year . . . . .	<u>\$ 68,971</u>	<u>\$ 59,833</u>	<u>\$ 53,283</u>

### Cash Flows used in Operating Activities

As Trisura International has not written new business since the end of 2008, its cash flows from operating activities have been negative principally due to payments on reinsurance contracts by way of claims, commutations and/or novations. There can be significant annual variation in such payments depending on the quantity and amount of claim payments, commutations and novations.

Cash flows used in operating activities decreased by 36.8% in 2016 compared to 2015, from US\$26.6 million to US\$16.8 million. The decrease was primarily attributable to a lower level of payments on reinsurance contracts by way of claims, commutations and/or novations in 2016 compared to 2015.

Cash flows used in operating activities decreased by 39.9% in 2015 compared to 2014, from US\$44.2 million to US\$26.6 million. The decrease was attributable to a number of factors in 2015 including significantly higher net income which more than offset higher payments on reinsurance contracts.

### Cash Flows from Investing Activities

Trisura International holds a portfolio of high-quality, investment grade, liquid securities to support its reinsurance contracts. See “— Financial Position — Assets — Investments”. There has been significant net sales of these securities in the periods indicated principally to fund claim payments and to increase cash and cash equivalents in line with the shortening duration of remaining reserves.

Cash flows from investing activities decreased by 6.6% in 2016 compared to 2015, from US\$33.1 million to US\$31.0 million. The decrease reflected lower payments on claims, commutations and/or novations in 2016 compared to 2015.

Cash flows from investing activities decreased by 45.9% in 2015 compared to 2014, from US\$61.2 million to US\$33.1 million. There were significant net sales of securities in 2014 to support requirements for cash used in operating activities and to increase the level of cash and cash equivalents.

#### *Cash Flows used in Financing Activities*

In 2014, Trisura International bought out two minority shareholders for US\$8.9 million. In August 2014, Trisura International obtained a loan of US\$5.0 million from Brookfield International Limited, a wholly-owned subsidiary of Brookfield Asset Management. This loan was repaid in full in February 2016.

#### *Financing Activities*

Effective November 18, 2008, Trisura International Insurance entered into a letter of credit facility with a major Canadian financial institution (the “**Trisura International Credit Facility**”), which has subsequently been renewed on each anniversary. At the most recent renewal in November 2016, the lender has agreed to provide letters of credit on an unsecured basis with a total capacity of US\$1.0 million (2015 — US\$6.0 million). Letters of credit under the Trisura International Credit Facility mature 364 days from the date of issuance on an “evergreen” basis, meaning that they automatically renew each year unless utilized by the letter of credit beneficiary. Under the Trisura International Credit Facility, Trisura International Insurance and/or certain of its subsidiaries must maintain certain covenants, including a minimum tangible net worth covenant of US\$10.0 million (2015 — US\$15.0 million). As at December 31, 2016, one letter of credit totaling US\$218.0 thousand (2015 — four totaling US\$5.7 million) has been issued. As of the date of this prospectus, Trisura International Insurance is in compliance with all of the covenants under the Trisura International Credit Facility.

#### *Summary of Contractual Obligations*

The table below presents Trisura International’s operating lease commitments, comprising premises leases for its offices as at the dates indicated:

<u>(in US\$ thousands)</u>	<u>As at</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Less than one year . . . . .	\$ 88	\$ 55
Between one and five years . . . . .	20	109
More than five years . . . . .	—	—
Total . . . . .	<u>\$108</u>	<u>\$164</u>

#### *Regulatory Capital Management*

Trisura International reviews its capital structure on a regular basis to ensure that it is compliant with all regulatory capital requirements.

As of the date of this prospectus, Trisura International is compliant with all such capital requirements. The entities within Trisura International subject to externally imposed regulatory capital requirements are (i) Trisura International Insurance, which has a regulatory capital requirement of US\$125.0 thousand throughout the period December 31, 2014 through December 31, 2016 and (ii) Imagine Asset Services dac, which has a regulatory capital requirement of US\$4.0 million as at December 31, 2016 (2015 — US\$3.9 million).

#### **Transactions with Related Parties**

As at December 31, 2016, Trisura International held approximately US\$10.6 million (2015 — US\$315.0 thousand) on deposit with Brookfield International Bank Inc., a wholly-owned subsidiary of Brookfield Asset Management. These deposits bear interest at the rate of one month U.S. Libor plus 300 basis points and are repayable on seven days’ notice. Included within net investment income as at December 31, 2016 is income of US\$249.0 thousand (2015 — US\$10.0 thousand; 2014 — US\$10.0 thousand) earned on this deposit.

As at December 31, 2016, Brookfield Investment Management Inc., a wholly-owned subsidiary of Brookfield Asset Management, manages 35.6% of Trisura International's investments. Included within net investment income are investment asset management fees of US\$63.0 thousand (2015 — US\$84.0 thousand; 2014 — US\$113.0 thousand) to Brookfield Investment Management Inc.

In February 2016, Trisura International repaid its non-interest bearing loan with Brookfield International Limited in full (such loan being repayable in full or in part at any time). Consequently, there is a US\$nil loan payable amount included within liabilities for 2016 (2015 — US\$5.0 million).

### **Risks Relating to Financial Instruments**

Trisura International's risk management approach is formalized through the audit and risk committee of the board of directors of Trisura International Insurance. The audit and risk committee of Trisura International Insurance establishes overall corporate risk appetite and sets policies and monitoring and control frameworks covering all aspects of risk. The audit and risk committee of Trisura International Insurance is supported by Trisura International's internal risk management team. The significant risks related to specialty insurance contracts are discussed under "Risk Factors". The significant risks related to financial instruments are credit risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk). Trisura International manages these risks by reference to its investment guidelines where objectives for asset sector and individual counterparty concentration limits, credit quality at individual security and aggregate portfolio levels, effective duration, yield curve sensitivity, and liquidity, among other things, are established. When appropriate, the investment guidelines allow for the use of financial futures and options, foreign exchange contracts and other derivatives to manage exposure to interest rates, currencies, credit risk and duration. See note 5 to the audited consolidated financial statements of Trisura International Holdco included elsewhere in this prospectus for further details.

#### ***Credit Risk***

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. For Trisura International, credit risk arises mainly from investments in bonds and short-term securities. Cash and short-term investments are placed with financial institutions of a high credit quality. Credit risk in respect of debt securities is managed through limits on its exposure to a single counterparty and by reference to the credit rating of the counterparty. In addition, Trisura International's investment guidelines require that the aggregate investment portfolio has an investment grade rating on average.

#### ***Market Risk***

Market risk for instruments is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of such instruments.

#### ***Interest Rate Risk***

Interest rate risk arises primarily from Trisura International's investment in fixed maturities and from discounted claims and claim adjustment expenses. Interest rate risk is the exposure to the effects of fluctuations in the prevailing levels of market interest rates on Trisura International's financial position and cash flows. Trisura International manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimize the impact of mismatches between the value of assets and liabilities from interest rate movements. Trisura International monitors its interest rate risk exposure through periodic reviews of the asset and liability position.

#### ***Currency Risk***

Trisura International operates primarily in Europe and the U.S. and is therefore exposed to currency risk arising mainly from fluctuations in exchange rates of the Euro against the U.S. dollar. The foreign currency positions are monitored quarterly and Trisura International uses currency hedges to manage foreign exchange risks where a material unmatched foreign exchange position exists. Trisura International's investment guidelines

explicitly prohibit speculation in foreign currencies without prior approval of the board of directors of Trisura International Holdco.

*Other Price Risk including Equity Risk*

This risk is not material to Trisura International as it does not hold equities.

**DIRECTORS AND EXECUTIVE OFFICERS**

**Directors and Executive Officers of our Company**

The table below sets forth information regarding the directors and executive officers of our Company.

<u>Name, City, Province and Country of Residence</u>	<u>Position/Title</u>	<u>Independent</u>	<u>Principal Occupation<sup>(1)</sup></u>
David Nowak <sup>(2)(3)(4)</sup> . . . . . Toronto, Ontario, Canada	Director and Chair of the Board (the “ <b>Chair</b> ”)	Yes	Managing Director, Head of Private Equity for Canada of Brookfield Asset Management
Paul Gallagher <sup>(5)(6)</sup> . . . . . Toronto, Ontario, Canada	Director	Yes	Vice President Investments, Orlando Corporation/Carfin Holdings Inc.
Barton Hedges <sup>(5)</sup> . . . . . Delray Beach, Florida, United States	Director	Yes	Retired
A.J. Silber <sup>(2)(3)</sup> . . . . . Toronto, Ontario, Canada	Director	Yes	Vice-President, Legal Affairs and Corporate Secretary of Brookfield Asset Management
Greg Morrison <sup>(3)</sup> . . . . . Smith’s Parish, Bermuda	Director, President and CEO of Trisura Group	No	President and CEO of Trisura Group
Allen Taylor . . . . . Toronto, Ontario, Canada	CFO of Trisura Group	N/A	Vice President, Finance of Brookfield Asset Management
Michael George . . . . . Aurora, Ontario, Canada	President and CEO of TGI	N/A	President and CEO of TGI
Eileen Sweeney <sup>(7)</sup> . . . . . Wake Forest, North Carolina, United States	President of Trisura US	N/A	President of Trisura US
Jimmy Doyle . . . . . Malahide, Dublin, Ireland	Chief Risk Officer of Trisura Group and President and CEO of Trisura International Insurance	N/A	President and CEO of Trisura International Insurance

- (1) See “— Biographical Information Regarding the Directors and Executive Officers of our Company” for the five year history of each director and executive officer.
- (2) Expected to be replaced as a director on or about the first annual meeting of shareholders.
- (3) Compensation is not expected to be paid for any services rendered as a director.
- (4) Expected to serve as chair of the governance and compensation committee of the Board (the “**Governance Committee**”) following completion of the spin-off.
- (5) Has agreed to serve on the Board and will be appointed to the Board following the date of this prospectus but prior to completion of the spin-off. As such, will not be liable as a director for any misrepresentations in this prospectus for purposes of Canadian securities laws (for which only the current directors have liability).
- (6) Expected to serve as chair of the audit committee of the Board (the “**Audit Committee**”) following completion of the spin-off.
- (7) Will be appointed as President of Trisura US upon incorporation of Trisura US.

Messrs. Gallagher and Hedges are expected to receive a retainer for their services as directors of \$50.0 thousand per annum. See “Director Compensation”.

Our current and proposed directors and executive officers do not currently own any Common Shares. Our directors and executive officers are expected to beneficially own, or control or direct, directly or indirectly, less than 1.0% of the issued and outstanding Common Shares immediately following the spin-off.

### ***Biographical Information Regarding the Directors and Executive Officers of our Company***

***David Nowak (47)*** — Mr. Nowak is a Managing Partner at Brookfield Asset Management and Head of Private Equity for Canada, responsible for investment origination, analysis and execution. Prior to joining Brookfield Asset Management in 2011, he was a principal at a Toronto-based private equity firm. Mr. Nowak serves on the Board of the CVCA, Canada’s Venture Capital and Private Equity Association. He holds a Bachelor of Laws from the University of Western Ontario and an MBA from Duke University where he graduated as a Fuqua Scholar.

***Paul Gallagher (61)*** — Mr. Gallagher has been Vice President Investments of Carfin Inc., an investment vehicle with holdings in private and public companies that are based in Canada and the United States, since 2016. Previously, Mr. Gallagher was the CFO at Wittington Investments, Limited which owns a number of public and private companies including George Weston Limited, one of North America’s largest food processing and distribution groups and Selfridges Group Limited, an international fashion retail company from 2007 to 2015. Prior to joining Wittington Investments, Limited, he held leadership roles with Avana Group, Fairwater Capital, Oxford Developments and PriceWaterhouseCoopers. Mr. Gallagher is a member of the boards of Guelph University and Sinai Health Systems and past President of the Board of the Children’s Aid Society of Toronto. He has previously served on the boards of the Caledon Institute of Social Policy, Rostland Corporation, Ryerson Oil and Gas and Northern Geophysical of America. Mr. Gallagher holds the Institute of Corporate Directors designation, is a Chartered Professional Accountant and holds a Bachelor of Commerce Degree from Lakehead University.

***Barton Hedges (51)*** — Mr. Hedges served as a director and CEO of Greenlight Capital Re, Ltd., a specialist P&C reinsurer, from August 2011 to March 2017. He also served as a director of Greenlight Reinsurance Ireland from 2011 to March 2017. Mr. Hedges previously served as President and Chief Underwriting Officer of Greenlight Reinsurance, Ltd. from January 2006 to August 2011. Mr. Hedges has over 20 years of experience in the P&C insurance/reinsurance industry. Prior to joining Greenlight Reinsurance Ltd., Mr. Hedges served as President and Chief Operating Officer of Platinum Underwriters Bermuda, Ltd., a property, casualty and finite risk reinsurer, from July 2002 until December 2005 where he was responsible for the initial start-up of the company and managed the company’s day-to-day operations. His previous experience includes serving as executive vice president and Chief Operating Officer of Bermuda-based Scandinavian Re, a former insurance and reinsurance company, and actuarial consultant at Tillinghast-Towers Perrin, a management consulting and software solutions company focused on insurance and financial services. Mr. Hedges received his B.S. in Mathematics, Computer Science Concentration, from Towson State University in 1987 and is a Fellow of the Casualty Actuarial Society.

***A.J. Silber (37)*** — Mr. Silber is Vice-President, Legal Affairs and Corporate Secretary of Brookfield Asset Management. He joined Brookfield in 2012 after working at the law firms of Torys LLP in Toronto and Ropes & Gray LLP in New York. Mr. Silber is a graduate of the JD/MBA program at the University of Toronto and holds a Bachelor of Commerce degree from McGill University. Mr. Silber is called to the Bar of Ontario and New York.

***Greg Morrison (59)*** — Mr. Morrison is the President and CEO of Trisura Group. Mr. Morrison has served as the Chairman of Trisura International Holdco since 2012. Previously, he served as the CEO and a director of Trisura International Holdco from 2006 to 2012. He has more than 35 years of experience in the insurance and reinsurance industries. He served as CEO of Platinum Underwriters Holdings Ltd., a property, marine and casualty reinsurance provider trading on the NYSE, and London Reinsurance Group Inc., a writer of reinsurance and retrocession in the P&C markets. Mr. Morrison currently sits on a number of property, casualty and life insurance company boards and their subsidiaries, including Trisura International Holdco, Aetna Life & Casualty (Bermuda) Limited, Redbridge Holdings Company Limited, Weston Insurance Holdings Corporation,

Aspen Bermuda Limited, Swan Group Holdings, Multi-Strat Holdings and various international subsidiaries of Brookfield Asset Management. Mr. Morrison is a Fellow of the Society of Actuaries (retired) and is an active member of a number of board audit and risk committees.

**Allen Taylor (35)** — Mr. Taylor is the CFO of Trisura Group. He is also Vice President, Finance of Brookfield Asset Management and has been with Brookfield Asset Management since 2008, holding a number of senior finance positions with it and its associated companies, including most recently working on the restructuring of Brookfield Asset Management's Brazilian residential development business, Brookfield Incorporações S.A. Prior to this, Mr. Taylor worked within Brookfield Asset Management's Corporate Finance group and was responsible for public financial reporting in addition to serving as the VP, Finance of PVI and CFO of each of its subsidiary companies.

**Michael George (53)** — Mr. George is the President and CEO of TGI. Mr. George has been the CEO of TGI since 2011 and the President of TGI since 2005. He is responsible for both the strategic and operational direction and performance of TGI. Mr. George has over 25 years of experience in the industry. Formerly, he led field operations for London Guarantee, a specialty property-liability insurance company focused on providing surety products as well as management liability, bond, and professional indemnity products, as Senior Vice President. Following the sale of London Guarantee, Mr. George helped guide the company through its integration and left in 2005 to begin work with TGI. He is also on the board of Brookfield Annuity Company, a federal life insurance company focused on the pension risk transfer business.

**Eileen Sweeney (56)** — Ms. Sweeney will be the President of Trisura US and is currently acting as a consultant to Trisura Group. Previously, she was a Partner at Great Curve Insurance Partners from 2015 to 2016. Ms. Sweeney acted as a consultant to Blue Mountain Capital from 2013 to 2014. She served as Executive Vice President with Ability Resources, a leading provider of full-service insurance management solutions, from 2007 to 2012. She has more than 30 years of experience in the insurance and reinsurance industries. Ms. Sweeney has filled a wide variety of roles including actuary, underwriter, private equity investor, board member, strategic advisor and senior executive. The companies with which she has worked include Centre Reinsurance, Zurich Insurance, Ability Resources and AIG. Ms. Sweeney has held senior positions at various companies in the Centre Group, as well as Ability Resources. She is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. Ms. Sweeney has an A.B. from Harvard College in Chemistry and Physics.

**Jimmy Doyle (58)** — Mr. Doyle is the Chief Risk Officer of Trisura Group and the President and CEO of Trisura International Insurance. He has been the CEO of Trisura International Insurance since 2008. In this role, he has directed all aspects of this profitable business, including the return of surplus capital to shareholders and eliminating exposure and reserves down through sales of subsidiaries, commutations, novations and natural claims pay-out. Mr. Doyle was previously Chief Risk Officer of Trisura International Insurance from 2004 to 2008. Prior to joining Trisura International Insurance, he spent eight years at Centre Reinsurance, a Bermuda based insurance and reinsurance company, where he served as Senior Vice President and Chief Actuary for Europe. Mr. Doyle's earlier career included the role of Actuarial Manager of Aviva/Hibernian Insurance, one of Ireland's leading P&C insurers. He is a qualified actuary and a Fellow of the Society of Actuaries in Ireland.

### **Penalties or Sanctions**

None of the current or proposed directors or executive officers of our Company, and to the best of our knowledge, no shareholder expected to hold a sufficient number of securities to affect materially the control of our Company, has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

### **Individual Bankruptcies**

None of the current or proposed directors or executive officers of our Company, and to the best of our knowledge, no shareholder expected to hold a sufficient number of securities to affect materially the control of our Company, has, within the 10 years prior to the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings,



arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

### **Corporate Cease Trade Orders and Bankruptcies**

None of the current or proposed directors or executive officers of our Company, and to the best of our knowledge, no shareholder expected to hold a sufficient number of securities to affect materially the control of our Company is, as at the date of this prospectus, or has been within the 10 years before the date of this prospectus, (a) a director, CEO or CFO of any company that was subject to an order that was issued while the existing or proposed director or executive officer was acting in the capacity as director, CEO or CFO; (b) was subject to an order that was issued after the existing or proposed director or executive officer ceased to be a director, CEO or CFO and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or CFO; or (c) a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. For the purposes of this paragraph, “order” means a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case, that was in effect for a period of more than 30 consecutive days.

### **Directors’ and Officers’ Liability Insurance**

The directors and officers of our Company are or will be covered by directors’ and officers’ liability insurance. Under this insurance coverage, our Company will be reimbursed for insured claims where payments have been made under indemnity provisions on behalf of the directors and officers of our Company, subject to a deductible for each loss, which will be paid by us. Individual directors and officers of our Company will also be reimbursed for insured claims arising during the performance of their duties for which they are not indemnified by our Company. Excluded from insurance coverage are illegal acts, acts which result in personal profit and certain other acts.

## **GOVERNANCE**

### **The Board of Directors**

Upon completion of the spin-off, the Board will consist of five directors. The directors will be elected by shareholders, on a cumulative basis, at each annual meeting of Trisura Group’s shareholders, and all directors will hold office for a term expiring at the close of the next annual meeting or until their respective successors are elected or appointed and will be eligible for re-election or re-appointment. Messrs. Nowak and Silber are expected to be replaced on or about the first annual meeting of shareholders. The nominees for election by shareholders as directors will be determined by the Governance Committee in accordance with the provisions of applicable corporate law and the charter of the Governance Committee. See “Description of our Share Capital — Common Shares — Election of Directors” for further details.

### ***Majority Voting Policy***

The Board has adopted a policy stipulating that, if the total number of Common Shares voted in favour of the election of a director nominee represents less than a majority of the total Common Shares voted and withheld for that director, in each case on a non-cumulative basis, the nominee will tender his or her resignation immediately after the meeting. Within 90 days of the meeting, the Board will determine whether or not to accept a director’s resignation and will issue a press release announcing the Board’s decision, a copy of which will be provided to the TSX. Absent exceptional circumstances, the Board will accept the resignation. The resignation will be effective when accepted by the Board. If the Board determines not to accept a resignation, the press release will fully state the reasons for that decision. A director who tenders his or her resignation will not participate in a Board meeting at which the resignation is considered. The majority voting policy does not apply in circumstances involving contested director elections.

### *Advance Notice Provisions*

Trisura Group has included certain advance notice provisions in its by-laws (the “**Advance Notice Provisions**”), a copy of which is available online on SEDAR at [www.sedar.com](http://www.sedar.com). The Advance Notice Provisions require advance notice to Trisura Group in circumstances where nominations of persons for election to the Board are made by holders of Common Shares (or any other shares then carrying the right to vote) other than pursuant to a “proposal” made in accordance with the provisions of the OBCA or a requisition of shareholders made in accordance with the provisions of the OBCA.

The Advance Notice Provisions set a deadline by which such shareholders must submit a notice of director nominations to Trisura Group prior to any meeting of shareholders. In the case of an annual meeting of shareholders, notice must be given not less than 30 days prior to the date of the annual meeting. In the event that the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be given not later than the close of business on the 10<sup>th</sup> day following the notice date. In the case of a special meeting of shareholders (which is not also an annual meeting), notice to Trisura Group must be given not later than the close of business on the 15<sup>th</sup> day following the day on which the first public announcement of the date of the special meeting was made.

The Advance Notice Provisions also require any shareholder making a director nomination to provide certain important information about him or herself and his or her nominees with its advance notice.

The chair of the meeting shall determine whether a nomination was made in accordance with the procedures set forth in the Advance Notice Provisions.

The Board may, in its sole discretion, waive any requirement of the Advance Notice Provisions.

### *Mandate of the Board*

Following the completion of the spin-off, the Board will have responsibility for overseeing the management of our business and affairs directly and through two standing committees: the Audit Committee and the Governance Committee (collectively, the “**Committees**”). The responsibilities of the Board and each Committee, respectively, will be set out in written charters, which will be reviewed and approved annually by the Board. The Board charter is attached as Appendix A to this prospectus.

The Board will be responsible for:

- overseeing our long-term strategic planning process and reviewing and approving our annual business plan;
- reviewing major strategic initiatives to determine whether management’s proposed actions accord with our long-term corporate goals and shareholder objectives;
- appointing our CEO, overseeing the selection of other members of senior management and reviewing succession planning;
- assessing management’s performance against approved business plans;
- reviewing and approving the reports issued to shareholders, including annual and interim financial statements;
- overseeing management’s approach to managing the impact of key risks facing our Company;
- promoting effective corporate governance; and
- safeguarding shareholders’ equity interests through the optimum utilization of our Company’s capital resources.

### *Independent Directors*

Upon completion of the spin-off, the Board will consist of five directors, four of whom will be considered to be “independent” under applicable securities laws. Mr. Morrison is not considered to be “independent” within the meaning of applicable securities laws as a result of his position as CEO of Trisura Group. Trisura Group will

obtain information from its directors annually to determine their independence. The Board will determine which directors are considered to be independent based on the recommendation of the Governance Committee, which will evaluate director independence based on the guidelines set forth under applicable securities laws.

The independent directors will be expected to hold in camera sessions at each meeting of the Board and its Committees, at which management and non-independent directors will not be present, and will have the opportunity, at their discretion, to hold ad hoc meetings that are not attended by management and non-independent directors. The Committees will each be comprised entirely of independent directors.

### ***Board Renewal***

Following completion of the spin-off, we will consider whether to impose mandatory Board turnover mechanisms. The Governance Committee is expected to review the composition of the Board on a regular basis in relation to approved director criteria and skill requirements and recommend changes as appropriate to renew the Board.

### ***Position Descriptions***

In connection with the spin-off, the Board will adopt a written position description for the Chair, which will set out the Chair's key responsibilities, including, as applicable, duties relating to setting Board meeting agendas, chairing Board and shareholder meetings and communicating with shareholders and regulators. The Board will also adopt a written position description for each of the Committee chairs which will set out each of the Committee chair's key responsibilities, including duties relating to setting Committee meeting agendas, chairing Committee meetings and working with the respective Committee and management to ensure, to the greatest extent possible, the effective functioning of the Committee.

The Board will also adopt written position descriptions for the CEO which will set out the key responsibilities of the CEO. The primary functions of the CEO will be to lead management of the business and affairs of our Company, to lead the implementation of the resolutions and the policies of the Board, to supervise day to day management and to communicate with shareholders and regulators.

### ***Director Orientation and Continuing Education***

Upon completion of the spin-off, it is expected that the Governance Committee will put in place an orientation program for new directors under which a new director will meet with the Chair and members of the executive management team of our Company. It is anticipated that a new director will be provided with comprehensive orientation and education as to the nature and operation of our Company and our business, the role of the Board and its Committees, and the contribution that an individual director is expected to make. The Governance Committee will be responsible for coordinating development programs for continuing directors to enable the directors to maintain or enhance their skills and abilities as directors as well as ensuring that their knowledge and understanding of our Company and our business remains current.

In situations where a director has a material interest in a matter to be considered by the Board or any Committee on which he or she serves, such director may be required to absent himself or herself from the meeting while discussions and voting with respect to the matter are taking place. Directors will also be required to comply with the relevant provisions of the OBCA regarding conflicts of interest.

### ***Director Commitments and Interlocking Directorships***

Upon completion of the spin-off, the Governance Committee is expected to monitor the demands placed on each director's time and attention outside of their service on the Board. This will include, among other things, reviewing the number of other public company boards that a director sits on to ensure that no director has excessive commitments to other public companies that may result in a reduced ability for the director to provide effective oversight as a Board member. The Governance Committee is also expected to monitor interlocking board and committee memberships among all directors. Board interlocks exist when two directors of one company sit on the board of another company and committee interlocks exist when two directors sit

together on another board and are also members of the same board committee, in each case, other than our subsidiaries. Currently, there are no board or committee interlocks that exist among the proposed directors.

### ***Board, Committee and Director Evaluation***

The Governance Committee will be responsible, along with the Chair, for establishing and implementing procedures to evaluate the effectiveness of the Board, its Committees and the contributions of individual Board members. The Governance Committee will also take reasonable steps to evaluate and assess, on an annual basis, directors' performance and effectiveness of the Board, its Committees, individual members, the Chair and Committee chairs. The assessment will address, among other things, individual director independence, individual director and overall Board skills and individual director financial literacy. The Board will receive and consider the recommendations from the Governance Committee regarding the results of the evaluation of the performance and effectiveness of the Board, its Committees and individual members. Annual director evaluation will also include peer review by the members of the Board.

### ***Diversity***

Immediately following completion of the spin-off, there will be no female members of the Board and, upon the launch of Trisura US, there will be one female executive officer of our Company. Following completion of the spin-off, we will consider whether to implement a diversity policy and related targets.

### **Committees of the Board**

The Board is expected to formally appoint two standing committees: the Audit Committee and the Governance Committee. The Audit Committee and the Governance Committee will be comprised entirely of independent directors. The responsibilities of each Committee will be set out in written charters, which will be reviewed and approved annually by the Board.

### ***Audit Committee***

The Audit Committee is expected to consist of three directors, all of whom will be both independent and financially literate within the meaning of National Instrument 52-110 — *Audit Committees* (“NI 52-110”). The Audit Committee is expected to be comprised of Messrs. Gallagher (chair of the Committee), Hedges and Silber. Each of the Audit Committee members must have an understanding of the accounting principles used to prepare financial statements and varied experience as to the general application of such accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For additional details regarding the relevant education and experience of the expected members of the Audit Committee, see “Directors and Executive Officers — Directors and Executive Officers of our Company — Biographical Information Regarding the Directors and Executive Officers of our Company”.

The Audit Committee will adopt an Audit Committee charter, substantially in the form attached as Appendix B to this prospectus. The Audit Committee will be responsible for: (i) monitoring our systems and procedures for financial reporting and associated internal controls, and the performance of our Company's auditors; (ii) reviewing certain public disclosure documents before their approval by the full Board and release to the public, such as our quarterly and annual financial statements and management's discussion and analysis; (iii) recommending an auditor to be nominated for appointment as the external auditor, and for approving the assignment of any non-audit work to be performed by the external auditor; (iv) monitoring financial and non-financial risk exposures and the steps taken to monitor and control such risk exposures; and (v) annually reviewing the guidelines which apply to our Company's treasury and risk management activities and overseeing our Company's overall risk management activities. The Audit Committee will meet regularly in private session with our Company's auditors, without management present, to discuss and review specific issues as appropriate.

In addition to being independent directors as described above, all members of the Audit Committee must meet an additional “independence” test under Canadian securities laws, in that their directors' fees must be and are the only compensation they receive, directly or indirectly, from our Company. Further, the Audit Committee is expected to require that all its members disclose any form of association with a present or former auditor of

our Company to the Board for a determination as to whether this association affects the independent status of the director.

### ***Governance Committee***

The Governance Committee is expected to be comprised of three directors, all of whom will be independent within the meaning of NI 52-110, and will be charged with reviewing, overseeing and evaluating the corporate governance, compensation and nominating policies of Trisura Group. The Governance Committee is expected to be comprised of Messrs. Nowak (chair of the Committee), Silber and Hedges.

It will be the responsibility of the Governance Committee, in consultation with the Chair, to assess from time to time the size and composition of the Board and its Committees; to review the effectiveness of the Board's operations and its relations with management; to assess the performance of the Board, its Committees and individual directors; to review Trisura Group's statement of corporate governance practices; and to review and recommend the directors' compensation.

The Board will put in place a formal procedure for evaluating the performance of the Board, its Committees and individual directors. The Governance Committee will review the performance of the Board, its Committees and the contribution of individual directors on an annual basis.

The Governance Committee will be responsible for reviewing the credentials of proposed nominees for election or appointment to the Board and for recommending candidates for Board membership, including the candidates proposed to be nominated for election to the Board at the annual meeting of shareholders of Trisura Group. Candidates will be assessed in relation to the criteria established by the Board to ensure that the Board has the appropriate mix of talent, quality, skills, diversity, perspectives and other requirements necessary to promote sound governance and Board effectiveness.

The Governance Committee will review, at least once a year, the composition of the Committees to ensure that Committee membership complies with the relevant governance guidelines, that the workload for independent directors is balanced, and that Committee positions are rotated as appropriate. In doing so, the Governance Committee will consult with the Chair and make recommendations to the Board, which will appoint Committee members.

The Governance Committee will also be responsible for reviewing and reporting to the Board on management resource planning, including succession planning and proposed senior management appointments, the job descriptions and annual objectives of senior executives, the form of executive compensation in general, including an assessment of the risks associated with the compensation plans, and the levels of compensation of the CEO and other senior executives. The Governance Committee will also review the performance of senior management against written objectives and reports thereon.

### **Code of Business Conduct and Ethics**

The Board is expected to adopt a written code of business conduct and ethics (the "**Code of Conduct**") intended to encourage and promote a culture of ethical business conduct among directors, management, employees and consultants of our Company. All directors, officers and employees of our Company will be required to provide a written acknowledgment upon joining our Company that they are familiar with and will comply with the Code of Conduct. All directors, officers and employees of our Company will be required to provide this same acknowledgement annually. Following completion of the spin-off, we will file a copy of the Code of Conduct on SEDAR at [www.sedar.com](http://www.sedar.com).

### **TG HOLDCO**

TG Holdco was incorporated under the *Canada Business Corporations Act* on August 22, 2005 and is domiciled in Canada. TG Holdco's authorized share capital consists of an unlimited number of common shares and an unlimited number of Class A non-voting common shares, Series 1 and Series 2, with an issue value of \$25.00 per share. Prior to the spin-off, TG Holdco intends to amend its articles to remove the Class A non-voting shares from its authorized capital. As of the date of this prospectus, 5.0 million common shares and no non-voting common shares were issued and outstanding. As of the date of this prospectus, indirect wholly-owned

subsidiaries of Brookfield Asset Management held 3.0 million common shares of TG Holdco (or a 60.0% ownership interest), and the TG Management Group held the remaining 2.0 million common shares (or a 40.0% ownership interest). The TG Management Group has the right to sell all of the common shares held by the TG Management Group to Trisura Group during the one-month period following the 18-month anniversary of the spin-off, as the result of the spin-off triggering the put right in the TG Holdco Unanimous Shareholder Agreement. See “— TG Holdco Unanimous Shareholder Agreement — TG Management Group Put Rights”. TG Holdco is the sole shareholder of TGI, which is incorporated under the ICA and is authorized to carry on business as a P&C insurance company in all provinces and territories in Canada.

## **TG Holdco Unanimous Shareholder Agreement**

### ***General***

The TG Holdco Unanimous Shareholder Agreement will be entered into by Trisura Group, the TG Management Group and TG Holdco in connection with the completion of the spin-off to replace the existing unanimous shareholder agreement of TG Holdco. The TG Holdco Unanimous Shareholder Agreement will govern the conduct of the business and affairs of Trisura Guarantee.

The following is a summary of certain provisions of the form of the TG Holdco Unanimous Shareholder Agreement, which summary does not purport to be complete. Following completion of the spin-off, we will file a copy of the TG Holdco Unanimous Shareholder Agreement on SEDAR at [www.sedar.com](http://www.sedar.com).

### ***Election of Directors and Officers of TG Holdco and TGI***

The board of directors of TG Holdco will be comprised of nominees of Trisura Group and the TG Management Group on the following basis:

<u>% of the common shares of TG Holdco held by the TG Management Group</u>	<u>Nominees of Trisura Group</u>	<u>Nominees of the TG Management Group</u>
greater than 20.0% . . . . .	3	2
10.0% to 20.0% . . . . .	4	1
less than 10.0% . . . . .	5	0

The board of directors of TG Holdco immediately following the spin-off is expected to comprise Messrs. Morrison, Nowak and Silber as nominees of Trisura Group, and John Garner and Mr. George, as nominees of the TG Management Group. Quorum for meetings of directors will be three directors, provided that, so long as the TG Management Group holds at least 10.0% of the common shares of TG Holdco, quorum will require at least one TG Management Group director nominee.

The board of directors of TGI will consist of seven directors appointed by TG Holdco, a certain number of whom will be nominees of the TG Management Group, as set out in the following table:

<u>% of the common shares of TG Holdco held by the TG Management Group</u>	<u>Nominees of the TG Management Group</u>
greater than 20.0% . . . . .	2
10.0% to 20.0% . . . . .	1
less than 10.0% . . . . .	0

### ***Matters Requiring Approval of the TG Holdco Board of Directors***

Prior consent of a majority of the directors of TG Holdco, which majority must include one nominee of the TG Management Group, will be required for the officers to cause TG Holdco or any of its subsidiaries, including TGI, to:

- amend its articles or other constating documents or make, amend or repeal any by-law;
- approve the annual business plan of TG Holdco, TGI or any material subsidiary of TG Holdco;

- create, assume or become liable for any borrowing or mortgage, pledge, charge, grant a security interest on or otherwise encumber any of its assets, other than in the ordinary course of its business;
- give security for or guarantee, or otherwise become liable or give any support in respect of, any debt, liability or obligation of any person, other than in the ordinary course of its business;
- make any expenditures (capital or otherwise) which, in the aggregate, are in excess of \$5.0 million in any financial year of TG Holdco or make any commitment exposing TG Holdco or any of its subsidiaries to an underwriting or other risk in excess of such limit as may be established by the board of directors of TG Holdco or any of its subsidiaries, as the case may be, other than in the ordinary course of business;
- (a) enter into any contract, agreement or commitment out of the ordinary course of business, (b) acquire or establish any additional business which is material to TG Holdco or (c) make any material change in, or terminate or suspend any material part of, its existing business;
- take, hold, subscribe for or agree to purchase or acquire shares of any corporation or take or have any interest in a joint venture or partnership or similar undertaking that is material to TG Holdco, other than in the ordinary course of its business;
- enter into any contract, agreement or commitment with any shareholder or any of its affiliates or with any person who does not deal at arm's length with any shareholder;
- except for scheduled payments under all promissory notes existing as of the date of the TG Holdco Unanimous Shareholder Agreement from TG Holdco to Trisura Group, repay any principal outstanding on any loan made to TG Holdco by a shareholder or any of its affiliates or by any person who does not deal at arm's length with any shareholder, or pay interest on any such loans;
- sell or otherwise dispose of, by conveyance, transfer, lease or otherwise, its undertaking as an entirety or substantially as an entirety or amalgamate or merge with or into any other corporation or apply to be continued as a corporation under the laws of any jurisdiction or take any steps to wind-up or terminate the corporate existence of TG Holdco;
- except for certain share issuances to the TG Management Group following share repurchases from members of the TG Management Group (discussed under “— Pre-Emptive Right”), issue shares or securities or enter into any agreement or make any offer to issue shares or securities or grant any right to acquire shares or securities of TG Holdco or any of its subsidiaries;
- declare or pay any dividends;
- change the authorized capital of TG Holdco or any of its subsidiaries, including consolidating, subdividing, reclassifying or redesignating any of the TG Holdco common shares;
- except as otherwise provided for in the TG Holdco Unanimous Shareholder Agreement, purchase for cancellation, redeem or otherwise acquire any of the issued and outstanding TG Holdco common shares;
- except as permitted by agreements existing as of the date of the TG Holdco Unanimous Shareholder Agreement, assign, transfer or permit the use of, or otherwise dispose of, any of TG Holdco's or any of its subsidiaries' trade names, trademarks or patents;
- forgive any material debt owing to TG Holdco or any of its subsidiaries; or
- make a proposal or voluntary assignment under any bankruptcy or similar law for the protection from creditors.

### *Share Issuances*

Upon the recommendation of the CEO of TG Holdco, the board of directors of TG Holdco may declare that certain employees of TG Holdco or its subsidiaries are eligible to purchase such number of common shares of TG Holdco at such price set out in the recommendation of the CEO.

### ***Pre-Emptive Right***

If TG Holdco issues additional common shares, the TG Management Group will have a pre-emptive right to purchase additional common shares on the following basis:

- if the TG Management Group holds in the aggregate 40.0% or more of the total number of common shares of TG Holdco outstanding and such issuance would result in the TG Management Group holding in the aggregate less than 40.0% of the total number of common shares of TG Holdco outstanding, the TG Management Group will have a pre-emptive right to purchase that number of common shares such that, after the issuance of the common shares and assuming the TG Management Group subscribes for all such shares offered to them, the TG Management Group would hold in the aggregate 40.0% of the total number of the common shares of TG Holdco outstanding; and
- if the TG Management Group holds in the aggregate less than 40.0% of the total number of common shares of TG Holdco outstanding, the TG Management Group will have a pre-emptive right to purchase that number of common shares such that, after the issuance of the shares and assuming the TG Management Group subscribes for all such shares offered to them, the TG Management Group would hold in the aggregate the same proportion of common shares of TG Holdco outstanding that the TG Management Group held before such issuance.

In the event that TG Holdco repurchases common shares from the TG Management Group in the circumstances described in “— TG Holdco Repurchase Obligations”, the board of directors of TG Holdco shall, for a 30-day period following the date on which such repurchase of common shares is completed, and, thereafter, may in its discretion, offer the same number of TG Holdco common shares to the TG Management Group and certain employees identified in a recommendation of the CEO of TG Holdco at a subscription price prescribed by the TG Holdco Unanimous Shareholder Agreement.

### ***Restrictions on Transfers of the Shares of TG Holdco***

The TG Holdco Unanimous Shareholder Agreement will restrict the transfer of common shares of TG Holdco except as provided therein. Trisura Group may transfer its shares of TG Holdco to any of its subsidiaries. Permitted transfers by members of the TG Management Group will include to their holding companies, trusts for the benefit of the employee’s family members or (subject to certain requirements, including obtaining a recommendation of the CEO of TG Holdco) to other members of the TG Management Group.

### ***Right of First Offer of the TG Management Group***

If Trisura Group intends to sell any of its common shares of TG Holdco (the “**Affected TG Holdco Shares**”), Trisura Group is required to first offer to sell all (but not less than all) of the Affected TG Holdco Shares to the TG Management Group. The TG Management Group will have the right to purchase the Affected Shares for a period of 60 days and if the TG Management Group does not accept the offer, Trisura Group is entitled, for a further period of 270 days, to offer the Affected TG Holdco Shares to a third party on terms and conditions not more favourable than those offered to the TG Management Group.

### ***Piggy-Back and Drag-Along Rights of Trisura Group***

If Trisura Group intends to sell all (but not less than all) of its common shares of TG Holdco to a third party, Trisura Group will either, at its election, (a) offer the TG Management Group the right (exercisable by approval of a majority of the TG Management Group) to sell all (but not less than all) of the common shares of TG Holdco held by the TG Management Group to such third party or (b) require the TG Management Group to sell all common shares of TG Holdco held by the TG Management Group to such third party. Such sales will be on the same terms and conditions as Trisura Group’s sale to such third party.



### ***TG Management Group Put Rights***

The TG Management Group will have the right (exercisable by approval of a majority of the TG Management Group) to sell all (but not less than all) of the common shares of TG Holdco held by the TG Management Group to Trisura Group if:

- Trisura Group holds less than 50.0% of the common shares of TG Holdco outstanding on a fully-diluted basis (unless resulting from a transaction or issuance initiated by the CEO of TG Holdco or a transaction in compliance with the right of first offer (see “— Right of First Offer of the TG Management Group”));
- TGI or another “material subsidiary” (as defined in the TG Holdco Unanimous Shareholder Agreement) of TG Holdco is sold or TG Holdco otherwise owns less than 50.0% of such subsidiary;
- in any one financial year, TG Holdco makes acquisitions in excess of \$5.0 million or assumes liabilities in excess of \$5.0 million, in each case, outside the ordinary course of business (unless approved by a majority of the directors nominated by the TG Management Group);
- TG Holdco or any of its subsidiaries amends its organizational documents in a manner that treats the TG Management Group differently from Trisura Group or TG Holdco’s other shareholders; or
- TG Holdco or any of its subsidiaries enters into a transaction with an affiliate of Trisura Group that materially adversely affects the TG Management Group.

The TG Management Group may exercise this put right within two weeks of notice of the event or, alternatively, within a one-month period following the 18-month anniversary of notice of the event. The TG Holdco Unanimous Shareholder Agreement prescribes the price at which these repurchases will occur.

### ***Further Rights of the TG Management Group***

Each member of the TG Management Group will have the right to sell all (but not less than all) of his/her common shares of TG Holdco to Trisura Group if Trisura Group breaches the TG Holdco Unanimous Shareholder Agreement (subject to a two-week cure period). The TG Management Group will also have the right (exercisable by approval of a majority of the TG Management Group) to purchase all (but not less than all) of the common shares of TG Holdco held by Trisura Group if it goes into bankruptcy. The TG Holdco Unanimous Shareholder Agreement prescribes the price at which these repurchases will occur.

### ***TG Holdco Repurchase Obligations***

TG Holdco will be required to purchase all of the common shares of TG Holdco held by a member of the TG Management Group in certain circumstances, including his/her breach of the TG Holdco Unanimous Shareholder Agreement; his/her bankruptcy; termination of his/her employment for cause; termination of his/her employment without cause; his/her retirement; the member or his/her spouse, domestic partner or child being diagnosed with a terminal or debilitating disease or illness; ceasing to be an employee for reasons other than those described above including his/her death or disability; if his/her spouse or former spouse claims entitlement to net family property or if TG Holdco demands repayment or fails to renew a shareholder loan given pursuant to the TG SPPs (as defined below). The TG Holdco Unanimous Shareholder Agreement prescribes the price at which these repurchases will occur.

Under the terms of the TG Holdco Unanimous Shareholder Agreement, Trisura Group will be required, at TG Holdco’s request, to lend to TG Holdco some or all of the funds required to repurchase shares from members of the TG Management Group in these circumstances.

Notwithstanding the foregoing, in any 12-month period, TG Holdco will not be obligated to repurchase more than 1.0 million common shares of TG Holdco held by the TG Management Group in these circumstances, provided such limit will not apply if the member ceases to be an employee due to his/her death or disability or the member or his/her spouse, domestic partner or child being diagnosed with a terminal or debilitating disease or illness. Any TG Holdco shares subscribed for by the TG Management Group and certain designated employees following any such repurchase (described in “— Pre-Emptive Right”) will also be excluded from such limit.

## **TG Holdco Share Purchase Plans**

Employees of Trisura Guarantee may be eligible to participate in TG Holdco's share purchase plans (each, a "TG SPP"). TG Holdco has two TG SPPs: the 2006 TG SPP and the 2012 TG SPP. While the 2006 TG SPP continues to apply to common shares of TG Holdco issued under the 2006 TG SPP, any issuance of common shares of TG Holdco from the adoption of the 2012 TG SPP onwards have and will be made under the 2012 TG SPP and no additional common shares will be issued under the 2006 TG SPP. It is expected that the 2012 TG SPP will be closed to further issuances of common shares of TG Holdco in connection with the execution of the TG Holdco Unanimous Shareholder Agreement.

In order to be eligible to participate in the TG SPPs, an employee must (a) be employed by TG Holdco or its subsidiaries, including TGI, on a full-time basis, including as an officer or director, (b) in the opinion of the board of directors of TG Holdco, bear a substantial responsibility for the management and growth of such company, (c) have been designated in accordance with the terms of the TG Holdco Unanimous Shareholder Agreement as eligible to purchase common shares of TG Holdco, including at the discretion of the board of directors of TG Holdco upon the recommendation of the CEO of TG Holdco (see "— TG Holdco Unanimous Shareholder Agreement — Share Issuances") and pursuant to pre-emptive rights (see "— TG Holdco Unanimous Shareholder Agreement — Pre-Emptive Right") and (d) obtain a loan under the TG SPP in the amount required for the trustee to purchase common shares of TG Holdco. Pursuant to an amendment to the existing unanimous shareholder agreement of TG Holdco in August 2014, if the board of directors of TG Holdco does not authorize a loan to an employee under the TG SPPs, TG Holdco will use reasonable commercial efforts to arrange for third party financing. Following this amendment, all employee purchases of common shares of TG Holdco have been funded with third party financing and not loans under the TG SPPs.

Common shares purchased under the TG SPPs are held in trust by a trustee for the benefit of the participant until the loans are repaid in full. Under the 2006 TG SPP, participants were able to purchase common shares of TG Holdco in return for notes payable, which do not have to be repaid, nor does interest have to be paid, until such time as the common shares are sold or redeemed. Participants under the 2012 TG SPP may purchase common shares in return for notes payable, which they are required to repay through semi-monthly payroll deductions, as well as one-half of their after-tax annual bonus, if any. Under both the 2006 and 2012 TG SPP, any dividends paid on the common shares held in trust are credited against the related loan and the loans bear interest at a rate equal to the prime rate of TG Holdco's primary lending institution plus 1.0%. If an employee is indebted to TG Holdco at the time of a repurchase of his/her common shares of TG Holdco under the TG Holdco Unanimous Shareholder Agreement, that debt will be satisfied out of the purchase price and any remainder will go to the employee. See "— TG Holdco Unanimous Shareholder Agreement". Loans under the 2006 TG SPP are repayable on the fifth anniversary of the date on which the common shares of TG Holdco were authorized to be issued except, unless the board of directors of TG Holdco determines otherwise, the loan is automatically renewed on that fifth anniversary (and each succeeding fifth anniversary thereafter) and is repayable five years following such date; this period was changed to 10 years in the 2012 TG SPP. If the board of directors of TG Holdco decides not to renew the participant's loan and the participant is unable to secure alternative financing or the participant sells his/her common shares of TG Holdco, the trustee will sell the relevant common shares and apply any unpaid interest and principal to the outstanding amount of the loan; the participant will be responsible for any remaining balance unpaid on the loans.

As of April 30, 2016, a total of 971,500 common shares of TG Holdco remain outstanding under the TG SPPs with loans totaling \$1.6 million due to TG Holdco by participants in respect of such shares. See "Indebtedness of Directors and Executive Officers."

## DIRECTOR COMPENSATION

### Overview

The Board, through the Governance Committee, will be responsible for reviewing and approving the directors' compensation arrangements and any changes to those arrangements.

Following completion of the spin-off, the Governance Committee will establish the compensation arrangements for each director that is not an employee of Trisura Group or one of its affiliates. The directors' compensation program will be designed to attract and retain the most qualified individuals to serve on the Board. It is expected that non-employee directors will be paid an annual retainer fee (the "Annual Retainer") of \$50.0 thousand and the Audit Committee chair is expected to receive an additional annual retainer of \$10.0 thousand. Directors may be required to receive a certain proportion of their annual retainer in deferred share units ("DSUs"). Following completion of the spin-off, Trisura Group will adopt a non-employee director DSU plan providing for awards of DSUs to directors other than employees of Trisura Group or its affiliates. A DSU is an award that entitles the participant to receive following the end of the director's tenure as a member of the Board an amount equivalent to the value of a Common Share at settlement. DSUs vest immediately and accrue dividend equivalents if and when dividends are paid on the Common Shares. Directors may also elect to receive 100% of their compensation in DSUs. Pending the adoption of the non-employee director DSU plan, the full amount of the Annual Retainer shall be paid in cash. As employees of Brookfield Asset Management, Messrs. Nowak and Silber are not expected to receive any compensation for their services as directors, nor is it anticipated that Brookfield Asset Management will be compensated for the services of Messrs. Nowak and Silber as directors.

It is expected that all directors will be reimbursed for their reasonable out-of-pocket expenses incurred in serving as directors. In addition, it is expected that directors will be entitled to receive remuneration for services rendered to Trisura Group in any other capacity, except in respect of their service as directors of any of its subsidiaries. Messrs. Nowak and Silber, as employees of Brookfield Asset Management, as well as directors who are employees of and who receive a salary from Trisura Group or one of its affiliates or subsidiaries, will not be entitled to receive any remuneration for serving as directors, but will be entitled to reimbursement of their reasonable out-of-pocket expenses incurred in serving as directors.

### Director Share Ownership Guidelines

Directors who are not also employees of Trisura Group or its affiliates will be subject to share ownership requirements. We will require that each such director hold Common Shares or DSUs having, in the aggregate, a value equal to at least three times the director's Annual Retainer, as determined by the Board from time to time. Directors will have five years from the date of joining the Board to achieve this minimum economic ownership requirement. Directors will be required to take one-half of their Annual Retainer in the form of DSUs until the minimum share ownership level is achieved. Thereafter, all independent directors will still be required to take at least one-quarter of their Annual Retainer in the form of DSUs. The director share ownership guidelines do not apply to Messrs. Nowak and Silber given that their service as directors is intended to be temporary.

## EXECUTIVE COMPENSATION

### Overview

The following discussion describes the compensation structure, programs and significant elements of compensation for our Company's named executive officers ("NEOs"). For fiscal 2017, our Company's NEOs are expected to be:

- Greg Morrison, President and CEO of Trisura Group;
- Allen Taylor, CFO of Trisura Group;
- Michael George, President and CEO of TGI;
- Eileen Sweeney, President of Trisura US; and
- Jimmy Doyle, Chief Risk Officer of Trisura Group and President and CEO of Trisura International Insurance.

## **Compensation Discussion and Analysis**

### ***Overview***

The Governance Committee, in consultation with the CEO, will be responsible for establishing, reviewing and overseeing the compensation policies of our Company and compensation of the NEOs. Our executive compensation program is designed to attract, retain and motivate highly qualified executives while also aligning the interests of the executives with our shareholders.

It is anticipated that the CEO will make recommendations to the Governance Committee each year with respect to the compensation for NEOs in consideration of the executive's performance during the year as well as the performance of our Company. The Governance Committee will review the recommendations of the CEO in determining whether to make a recommendation to the Board or recommend any further changes to compensation for the executives. In addition, the Governance Committee will annually review and make recommendations to the Board regarding the compensation for the CEO.

### ***Compensation Risk***

In reviewing the compensation policies and practices of our Company each year, the Governance Committee will seek to ensure the executive compensation program provides an appropriate balance of risk and reward consistent with the risk profile of our Company. The Governance Committee will also seek to ensure our compensation practices do not encourage excessive risk taking behaviour by the executive team. Our Share Option Plan (as defined below) has been designed to focus on the long-term performance of Trisura Group, which discourages executives from taking excessive risks in order to achieve short-term, unsustainable performance.

Following completion of the spin-off, we may consider whether to adopt a clawback policy relating to annual bonus payments, options granted under our Share Option Plan and any other incentive compensation awarded to executives that may be triggered if an executive engages in misconduct that results in the need to restate our financial statements where the individual received an award calculated on the achievement of those financial statements.

All of our Company's directors, officers and employees will be subject to our insider trading policy contained in the Code of Conduct, which will prohibit trading in the securities of Trisura Group while in possession of material undisclosed information about Trisura Group. Under the Code of Conduct, such individuals will also be prohibited from entering into certain types of hedging transactions involving the securities of Trisura Group, such as short sales and put options. Furthermore, the Code of Conduct will prohibit trading in Trisura Group's securities, including the exercise of options, during prescribed blackout periods. We will also require all executives and directors to pre-clear trades in Trisura Group's securities.

### **Principal Elements of Compensation**

The compensation of the NEOs is expected to include three major elements: (i) base salary, (ii) annual bonuses and (iii) our Share Option Plan. Perquisites and personal benefits are not a significant element of compensation of the NEOs.

In addition, Mr. George, together with other employees of Trisura Guarantee, is eligible to participate in the TG SPPs. The TG SPPs are expected to be closed to further issuances of TG Holdco common shares on completion of the spin-off. See "TG Holdco — TG Holdco Share Purchase Plans".

### ***Base Salaries***

A primary element of our Company's compensation program is expected to be base salary. An NEO's base salary will be determined based on the scope of their responsibilities and prior experience, while taking into account competitive market compensation and overall market demand for such executives at the time of hire. For the base salaries that the NEOs are expected to receive in 2017, see "— Summary Compensation Table".

Base salaries will be reviewed annually and increased for merit reasons based on the executive's success in meeting or exceeding individual objectives and objectives of our Company. Additionally, base salaries can be adjusted as warranted throughout the year to reflect promotions or other changes in the scope or breadth of an executive's role or responsibilities, as well as for market competitiveness.

### *Annual Bonuses*

Annual bonuses will be designed to motivate executive officers to meet our business objectives generally and our Company's annual financial performance targets in particular.

It is expected that Messrs. Morrison and Doyle and Ms. Sweeney will participate in the bonus plan of Trisura Group, which will provide an annual bonus based on the achievement of individual and corporate performance goals, which are expected to be established by the Board at the beginning of each year. In 2017, these performance goals are expected to be established by the Board in connection with the spin-off, and for Ms. Sweeney, when Trisura US commences writing business. It is expected that one-half of any bonus payable will be paid in cash at the time of the award with the remaining portion to be awarded in options that will vest in equal portions over five years and expire on the 10-year anniversary of the grant. See "— Share Option Plan".

Mr. George participates in the TGI CEO bonus plan, which provides an annual cash bonus based on TGI's annual underwriting income. TGI sets targets in connection with its annual budget process. In 2017, Mr. George will be eligible for an annual cash bonus of up to 75.0% of his base salary.

For the annual bonuses that Messrs. Morrison, Doyle and George and Ms. Sweeney will be eligible to receive in 2017, see "— Summary Compensation Table".

### *Share Option Plan*

#### *Overview*

Upon completion of the spin-off, we expect to adopt a share option plan, under which grants of options may be made (the "**Share Option Plan**"). The Share Option Plan will be submitted to shareholders for approval at Trisura Group's first annual meeting of shareholders. The Share Option Plan is expected to provide for the issuance of 400,000 Common Shares, which is expected to represent 7.6% of the issued and outstanding Common Shares upon completion of the spin-off. In connection with the spin-off, we intend to grant options to purchase 60,150 Common Shares to Mr. Morrison (such grant being subject to shareholder ratification at Trisura Group's first annual meeting of shareholders). The following is a summary of the key terms of the Share Option Plan.

#### *General Terms of the Share Option Plan*

The Board will establish the exercise price of each option at the time it is granted, which may not be less than the closing price of a Common Share on the last trading day preceding the date of the grant on any stock exchange on which the Common Shares are then-listed. For options approved during a blackout period, it is expected that the effective grant date will not be less than six business days after the blackout ends and the exercise price for the options will be the volume-weighted average trading price of the Common Shares for the five business days preceding the effective grant date.

Employees and officers of our Company and others designated by the Board will be eligible to participate in the Share Option Plan. Non-employee directors will not be eligible to participate in the Share Option Plan. The number of Common Shares issuable to insiders, or issued in any one year to insiders, under the Share Option Plan and any other security-based compensation arrangements adopted from time to time, will not exceed in either case 10.0% of the issued and outstanding Common Shares; and no more than 5.0% of the issued and outstanding Common Shares may be issued under these arrangements to any one person. All option grants will be approved by the Board on the recommendation of the Governance Committee. The Board will determine the vesting period for each option grant, which is expected to normally be 20.0% per year over five years commencing the first year after the grant. The Board will also set the expiry period for each option grant, which will not exceed 10 years, except where the expiry date falls during or shortly after a blackout period, in which case the expiry date will be 10 days after the blackout period ends.

The Share Option Plan will set out provisions regarding the exercise and cancellation of options following a change in the employment status of a plan participant. In general, all vested options are expected to be required to be exercised by, and all unvested options are expected to be cancelled on, a participant's termination date, except as follows: in the event of termination without cause or due to a continuous leave of absence as a result of a disability, vested options are expected to be required to be exercised within 90 days following the termination date; in the event of retirement, vested options are expected to continue to be exercisable until the applicable expiry date; in the event of death, all granted options are expected to continue to vest and be exercisable for six months following death; and in the event the participant is terminated without cause or is constructively dismissed, in each case, within 12 months following a change of control, all unvested options shall immediately vest and become exercisable.

#### *Shareholder Approval*

The Share Option Plan will contain an amending provision setting out the types of amendments which can be approved by the Board without shareholder approval and those which will require shareholder approval. Shareholder approval is expected to be required for any amendment that increases the number of Common Shares issuable under the Share Option Plan, lengthens the period of time after a blackout period during which options may be exercised, results in the exercise price being lower than fair market value of a Common Share at the date of grant, reduces the exercise price, extends the term of an option beyond its expiry date, permits options to be transferable or assignable other than for normal estate planning purposes, amends the amendment provisions, expands the categories of eligible participants which may permit the introduction or reintroduction of non-employee directors on a discretionary basis, removes or exceeds the insider participation limit or other amendments required by law to be approved by shareholders.

Shareholder approval is not expected to be required for any amendment to the Share Option Plan that is of a housekeeping or administrative nature, that is necessary to comply with applicable laws or to qualify for favourable tax treatment, that is to the vesting, termination or early retirement provisions (provided that the amendment does not entail an extension beyond the expiry period of the options), that adds or modifies a cashless exercise feature that provides for a full deduction of the number of Common Shares from the Share Option Plan reserve, and to suspend or terminate the Share Option Plan.

#### *Other Features of the Share Option Plan*

Our Company does not intend to provide any financial assistance to plan participants to facilitate the purchase of Common Shares issued pursuant to the exercise of options under the Share Option Plan. Options granted under the Share Option Plan are expected to not be transferable or assignable other than by will or pursuant to the laws of descent and distribution.

The Board, at the recommendation of the Governance Committee, is expected to approve all option awards. The Governance Committee is expected to recommend the option award for the CEO. All other option awards are expected to be recommended by the CEO to the Governance Committee.

## Summary Compensation Table

Based on the information available at the date hereof, the following table sets out information concerning the initial expected annualized compensation to be earned by, paid to or awarded to the NEOs during the year ending December 31, 2017.

Name and Principal Position	Salary <sup>(1)</sup>	Option Based Awards <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (Bonus)	All Other Compensation	Total Compensation
			Annual Incentive Plans <sup>(3)</sup>		
Greg Morrison . . . . . President and CEO of Trisura Group	\$342,000 <sup>(6)</sup>	\$1,094,000	\$547,000 <sup>(6)</sup>	—	\$1,983,000
Allen Taylor <sup>(4)</sup> . . . . . CFO of Trisura Group	—	—	—	\$150,000	\$ 150,000
Michael George . . . . . President and CEO of TGI	\$365,000	—	\$274,000	—	\$ 639,000
Eileen Sweeney <sup>(5)</sup> . . . . . President of Trisura US	\$410,000 <sup>(6)</sup>	\$ 273,000	\$273,000 <sup>(6)</sup>	—	\$ 956,000
Jimmy Doyle . . . . . Chief Risk Officer of Trisura Group and President and CEO of Trisura International Insurance	\$410,000 <sup>(6)</sup>	\$ 154,000	\$154,000 <sup>(6)</sup>	—	\$ 718,000

- (1) Base salaries presented are amounts expected to be paid for fiscal 2017.
- (2) Amounts for Messrs. Morrison and Doyle and Ms. Sweeney are calculated based on the portion of the bonus payable in options under the Trisura Group bonus plan (based on maximum payment amounts) determined in accordance with Black-Scholes-Merton model; actual amounts will depend on performance for 2017. The amount for Mr. Morrison also reflects the expected grant date fair value of options that will be granted in connection with the spin-off, determined in accordance with Black-Scholes-Merton model.
- (3) Amounts for Messrs. Morrison and Doyle and Ms. Sweeney are calculated based on the portion of the bonus payable in cash under the Trisura Group bonus plan (based on maximum payment amounts). Amount for Mr. George is calculated based on the bonus payable under the TGI CEO bonus plan (based on maximum payment amount). Actual amounts will depend on performance for 2017.
- (4) Our Company will be charged by Brookfield Asset Management for Mr. Taylor's services (see "— Management Services Agreement").
- (5) Will be appointed as President of Trisura US upon incorporation of Trisura US.
- (6) All amounts for Messrs. Morrison and Doyle and Ms. Sweeney are in U.S. dollars and have been converted to Canadian dollars using an exchange rate of US\$1.00 = C\$1.3672, being the noon exchange rate posted by the Bank of Canada on May 10, 2017.

## Employment Agreements, Termination and Change of Control Benefits

We will have written employment agreements with each of our NEOs (other than Mr. Taylor whose services are provided pursuant to the Management Services Agreement (as defined below) between Trisura Group and Brookfield Asset Management) and each of these executives will be entitled to receive compensation established by us as well as other benefits in accordance with plans available to the most senior employees (including health, dental, life insurance, accidental death and dismemberment, sick days and short-term disability and long-term disability). Trisura Group will pay no compensation directly to Mr. Taylor as his services are provided pursuant to the Management Services Agreement. See "— Management Services Agreement". Our Company's NEO employment contracts do not contain any provisions relating to a change of control. For a summary of the change of control benefit provisions provided under our Share Option Plan, see "— Principal Elements of Compensation — Share Option Plan — General Terms of the Share Option Plan".

## Management Services Agreement

Pursuant to the terms of a management services agreement to be entered into between Brookfield Asset Management and Trisura Group prior to the completion of the spin-off (the "**Management Services Agreement**"), Brookfield Asset Management agrees to provide our Company with the services of Mr. Taylor, as CFO of Trisura Group, until the first annual general meeting of shareholders of Trisura Group, or as otherwise agreed to by the parties.

As a shared executive of both Brookfield Asset Management and our Company, Mr. Taylor will not devote all of his time to the business of our Company. It is expected that Mr. Taylor will devote approximately one-third of his working time to our Company, subject to change as is necessary to carry out his executive responsibilities and fiduciary duties. The Management Services Agreement provides that the compensation to be paid to Mr. Taylor shall be paid by Brookfield Asset Management, and we will pay to Brookfield Asset Management an annual fee for Mr. Taylor's services equal to \$150.0 thousand plus applicable taxes.

Brookfield Asset Management and each of its directors, officers and employees (including Mr. Taylor) will be indemnified by Trisura Group to the fullest extent permitted by law for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against Brookfield Asset Management, or any of its officers, directors or employees (including Mr. Taylor), in the exercise of its duties pursuant to the Management Services Agreement, except those resulting from the following actions by Brookfield Asset Management or its directors, officers or employees: willful misconduct, bad faith, negligence or material breach or default of such person's obligations under the Management Services Agreement (collectively, the "**Material Breaches**"). Our Company and each of our directors, officers and employees will be indemnified by Brookfield Asset Management to the fullest extent permitted by law for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced, or other claim that is made against our Company, or any of our officers, directors or employees, resulting from Material Breaches.

The Management Services Agreement will remain in force until the earlier of (i) the date on which Trisura Group and Brookfield Asset Management agree in writing to terminate the Management Services Agreement; (ii) the date on which Brookfield Asset Management gives written notice of the termination of the Management Services Agreement; and (iii) 30 days following the date on which we appoint a full-time CFO. No additional fees will be payable by Trisura Group to Brookfield Asset Management on termination of the Management Services Agreement.

## **DESCRIPTION OF OUR SHARE CAPITAL**

Upon completion of the spin-off, our authorized share capital will consist of (i) an unlimited number of Common Shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series).

Upon completion of the spin-off, approximately 5,800,000 Common Shares will be issued and outstanding.

### **Common Shares**

Except as described below under "— Election of Directors", each holder of Common Shares will be entitled to receive notice of and to attend all meetings of the shareholders of Trisura Group and will be entitled to one vote for each Common Share held at all meetings of the shareholders of Trisura Group, except for meetings at which only holders of another specified class or series of shares of Trisura Group are entitled to vote separately as a class or series. The holders of Common Shares will be entitled to receive dividends as and when declared by the Board, participating equally with holders of non-voting shares, subject to the preference of the holders of the preference shares and any other shares ranking senior to the Common Shares and non-voting shares with respect to priority in payment of dividends. Stock dividends, if any, will be declared contemporaneously and paid at the same time in equal numbers of additional equity shares of the same class and series such that stock dividends will be paid in Common Shares to holders of the Common Shares and in non-voting shares to holders of the non-voting shares.

After payment to the holders of preference shares and any other shares senior to the Common Shares and the non-voting shares with respect to priority in the distribution of assets in the event of the liquidation, dissolution or other distribution of our assets for the purpose of winding up our affairs, the holders of Common Shares and the holders of non-voting shares will rank equally with each other and will be entitled to receive the remaining property of Trisura Group that pertains to shareholders in equal amounts per share, without preference or priority of one share or another.



If either of the Common Shares or non-voting shares are subdivided, consolidated, reclassified or otherwise changed, appropriate adjustments would be made at the same time to the rights attaching to the shares of the other class to ensure the preservation of the rights of each class in relation to those of the other.

### ***Election of Directors***

Each holder of Common Shares has the right to cast a number of votes equal to the number of Common Shares held by the holder multiplied by the number of directors to be elected by the holder and the holders of shares of the classes or series of shares entitled to vote with the holder of Common Shares in the election of directors. A holder of Common Shares may cast all such votes in favour of one candidate or distribute such votes among its candidates in any manner the holder of Common Shares sees fit. Where a holder of Common Shares has voted for more than one candidate without specifying the distribution of votes among such candidates, the holder of Common Shares will be deemed to have divided the holder's votes equally among the candidates for whom the holder of Common Shares voted.

### ***Book-Based System***

The Common Shares may be represented in the form of one or more fully registered share certificates held by, or on behalf of, CDS Clearing and Depository Services Inc. ("CDS") or the Depository Trust Company ("DTC"), as applicable, as custodian of such certificates for the participants of CDS or DTC, registered in the name of CDS or DTC or their respective nominee, and registration of ownership and transfers of the Common Shares may be effected through the book-based system administered by CDS or DTC, as applicable.

### **Non-Voting Shares**

The non-voting shares will entitle the holders thereof to receive notice of meetings of the shareholders of Trisura Group but will not entitle holders thereof to any votes at such meetings, unless otherwise required by law. The holders of non-voting shares will be entitled to receive dividends as and when declared by the Board, participating equally with holders of Common Shares, subject to the preference of the holders of the preference shares and any other shares ranking senior to the non-voting shares and Common Shares with respect to priority in payment of dividends. Stock dividends, if any, will be declared contemporaneously and paid at the same time in equal numbers of additional equity shares of the same class and series such that stock dividends will be paid in non-voting shares to holders of the non-voting shares and in Common Shares to holders of the Common Shares.

After payment to the holders of preference shares and any other shares senior to the non-voting shares and the Common Shares with respect to priority in the distribution of assets in the event of the liquidation, dissolution or other distribution of our assets for the purpose of winding up our affairs, the holders of Common Shares and the holders of non-voting shares will rank equally with each other and will be entitled to receive the remaining property of Trisura Group that pertains to shareholders in equal amounts per share, without preference or priority of one share or another.

If either of the non-voting shares or Common Shares are subdivided, consolidated, reclassified or otherwise changed, appropriate adjustments would be made at the same time to the rights attaching to the shares of the other class to ensure the preservation of the rights of each class in relation to those of the other.

In certain circumstances, if a take-over bid is made for the Common Shares only, a holder of non-voting shares may, at his or her option, and for the purpose of tendering to such take-over bid, convert any or all non-voting shares then held by such holder into Common Shares on a one-for-one basis during a specified period of time. Our Company is required to give notice of the occurrence of an event entitling the holders of non-voting shares to exercise such conversion right as soon as is reasonably practicable after the seventh day following the date upon which the offer is made or deemed to be made to holders of Common Shares.

### **Preference Shares**

The following is a summary of certain provisions attaching to the preference shares as a class.

### ***Priority***

Each series of preference shares will rank on a parity with every other series of preference shares with respect to dividends and return of capital. The preference shares shall be entitled to a preference over the Common Shares, the non-voting shares and any other shares ranking junior to the preference shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of Trisura Group, whether voluntary or involuntary, or any other distribution of the assets of Trisura Group among our shareholders for the specific purpose of winding up our affairs.

### ***Directors' Right to Issue in One or More Series***

The preference shares may be issued at any time and from time to time in one or more series. Before any shares of a series are issued, the Board shall fix the number of shares that will form such series, if any, and shall, subject to any limitations set out in the by-laws of Trisura Group or in the OBCA, determine the designation, rights, privileges, restrictions and conditions to be attached to the preference shares as the case may be, of such series.

### ***Voting Rights of Preference Shares***

Except as hereinafter referred to or as required by law or as specified in the rights, privileges, restrictions and conditions attached from time to time to any series of preference shares, the holders of such preference shares as a class shall not be entitled as such to receive notice of, to attend or to vote at any meeting of the shareholders of Trisura Group.

### ***Amendment with Approval of Holders of Preference Shares***

The rights, privileges, restrictions and conditions attached to the preference shares as a class may be added to, changed or removed but only with the approval of the holders of such class of preference shares given as hereinafter specified.

### ***Approval of Holders of Preference Shares***

The approval of the holders of a class of preference shares to add to, change or remove any right, privilege, restriction or condition attaching to such class of preference shares as a class or in respect of any other matter requiring the consent of the holders of such class of preference shares may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by all the holders of such class of preference shares or passed by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of such class of preference shares duly called for that purpose.

The formalities to be observed with respect to the giving of notice of any such meeting or any adjourned meeting, the quorum required therefor and the conduct thereof shall be those from time to time required by the OBCA as in force at the time of the meeting and those, if any, prescribed by the by-laws or the administrative resolutions of Trisura Group with respect to meetings of shareholders. On every poll taken at every meeting of the holders of a class of preference shares as a class, or at any joint meeting of the holders of two or more series of a class of preference shares, each holder of such class of preference shares entitled to vote thereat shall have one vote in respect of each such preference share held.

## **CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Torys LLP, counsel to our Company, the following summary describes the principal Canadian federal income tax consequences with respect to the receipt, holding and disposition of the Common Shares to a shareholder who as beneficial owner, receives the Common Shares pursuant to the spin-off and who, at all relevant times, for the purposes of the Tax Act, (i) deals at arm's length with our Company and Brookfield Asset Management, (ii) is not affiliated with our Company and Brookfield Asset Management and (iii) holds the Common Shares as capital property (a "**Holder**"). Generally, the Common Shares will be capital property to a Holder provided the Holder does not acquire or hold those Common Shares in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the current provisions of the Tax Act, and counsel's understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the "CRA") published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister prior to the date hereof (the "Proposed Amendments") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or assessing practice whether by legislative, administrative or judicial action or decision, nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from those discussed herein.

This summary is not applicable to a Holder: (i) that is a "specified financial institution", (ii) an interest in which is a "tax shelter investment", (iii) that is a "financial institution" for purposes of the "mark-to-market property" rules, (iv) that reports its "Canadian tax results" in a currency other than Canadian currency, (v) that has or will enter into a "derivative forward agreement" or a "synthetic disposition arrangement" in respect of the Class A Shares or Class B Shares or the Common Shares, or (vi) who has acquired their Class A Shares and Class B Shares on the exercise of an employee stock option, each as defined in the Tax Act. Such Holders should consult their own tax advisors.

**This summary is of a general nature only and is not, and is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representation concerning the tax consequences to any particular Holder or prospective Holder are made. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective Holders should consult their own tax advisors with respect to an investment in the Common Shares having regard to their particular circumstances.**

#### **Taxation of Holders Resident in Canada**

The following portion of the summary is applicable to a Holder who, at all relevant times is resident or is deemed to be resident in Canada under the Tax Act ("Resident Holders"). Certain Resident Holders may be entitled to make or may have already made the irrevocable election permitted by subsection 39(4) of the Tax Act, the effect of which may be to deem any Common Shares (and all other "Canadian securities", as defined in the Tax Act) owned by such Resident Holder to be capital property in the taxation year in which the election is made and in all subsequent taxation years. Resident Holders whose Common Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election.

#### *Spin-Off*

Resident Holders who receive Common Shares pursuant to the spin-off will be considered to have received a taxable dividend equal to the aggregate fair market value of the Common Shares so received plus the amount of any cash received in lieu of fractional Common Shares. The adjusted cost base to a Resident Holder of the Common Shares received pursuant to the spin-off will be equal to the fair market value of the Common Shares so received. In computing the adjusted cost base of the Common Shares at any time, the adjusted cost base of a Resident Holder's Common Shares received pursuant to the spin-off will be averaged with the adjusted cost base of all other Common Shares, if any, held by the Resident Holder as capital property at that particular time.

The special dividend received by a Resident Holder who is an individual will be included in computing the Resident Holder's income subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received from taxable Canadian corporations. The special dividend will be eligible for the enhanced gross-up and dividend tax credit if Brookfield Asset Management designates the special dividend as an "eligible dividend". Such special dividend received by an individual, or certain trusts, may give rise to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Subject to the potential application of subsection 55(2) of the Tax Act, such special dividend received by a Resident Holder that is a corporation will be included in the corporation's income and will generally be deductible in computing its taxable income. Certain corporations, including "private corporations" or "subject corporations" (as these terms are defined in the Tax Act) may be liable to pay a refundable tax under Part IV of the Tax Act on the special dividend to the extent that the dividend is deductible in computing taxable income.

Subsection 55(2) of the Tax Act provides that where a corporate Resident Holder receives a dividend and such dividend is deductible in computing the corporate Resident Holder's income and is not subject to Part IV tax or is subject to Part IV tax that is refundable as part of the series of transactions that includes the receipt of the dividend, all or part of the dividend may in certain circumstances be treated as a capital gain from the disposition of a capital property, the taxable portion of which must be included in computing the corporate Resident Holder's income for the year in which the dividend was received. Accordingly, corporate Resident Holders should consult their own tax advisors for specific advice with respect to the potential application of this provision.

Neither Brookfield Asset Management nor our Company has any obligation to distribute cash to pay any taxes owed by a Resident Holder as a result of the special dividend and neither Brookfield Asset Management nor our Company has any intention to do so. Accordingly, a Resident Holder may need to satisfy any Canadian federal income tax liability resulting from the receipt of the Common Shares with cash from such Resident Holder's own funds or by selling all or a portion of the Common Shares received.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" as defined in the Tax Act may be liable to pay an additional refundable tax on its "aggregate investment income", which is defined in the Tax Act to include dividends or deemed dividends that are not deductible in computing taxable income.

#### ***Dividends on the Common Shares***

Dividends on the Common Shares received by a Resident Holder who is an individual will be included in computing the Resident Holder's income subject to the gross-up and dividend tax credit rules normally applicable under the Tax Act to taxable dividends received from taxable Canadian corporations. The dividend will be eligible for the enhanced gross-up and dividend tax credit if Trisura Group designates the dividend as an "eligible dividend". Dividends received by an individual, or certain trusts, may give rise to alternative minimum tax under the Tax Act, depending on the individual's circumstances.

Subject to the potential application of subsection 55(2) of the Tax Act, such dividend received by a Resident Holder that is a corporation will be included in the corporation's income and will generally be deductible in computing its taxable income. Certain corporations, including "private corporations" or "subject corporations", may be liable to pay a refundable tax under Part IV of the Tax Act on the dividend to the extent that the dividend is deductible in computing taxable income.

Subsection 55(2) of the Tax Act provides that where a corporate Resident Holder receives a dividend and such dividend is deductible in computing the corporate Resident Holder's income and is not subject to Part IV tax or is subject to Part IV tax that is refundable as part of the series of transactions that includes the receipt of the dividend, all or part of the dividend may in certain circumstances be treated as a capital gain from the disposition of a capital property, the taxable portion of which must be included in computing the corporate Resident Holder's income for the year in which the dividend was received. Accordingly, corporate Resident Holders should consult their own tax advisors for specific advice with respect to the potential application of this provision.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" may be liable to pay an additional refundable tax on its "aggregate investment income", which is defined in the Tax Act to include dividends or deemed dividends that are not deductible in computing taxable income.

#### ***Disposition of the Common Shares***

A disposition or deemed disposition of the Common Shares by a Resident Holder will generally result in a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base to the Resident Holder of the Common Shares immediately before the disposition. As discussed above, the adjusted cost base to a Resident Holder of the Common Shares received pursuant to the spin-off will be equal to the fair market value of the Common Shares so received. In computing the adjusted cost base of the Common Shares at any time, the adjusted cost base of a Resident Holder's Common Shares received pursuant to the spin-off will be averaged with the adjusted cost base of all other Common Shares, if any, held by the Resident Holder as capital property at that particular time.

In general, one-half of a capital gain realized by a Resident Holder must be included in computing such Resident Holder's income as a taxable capital gain. One-half of a capital loss must be deducted as an allowable capital loss against taxable capital gains realized in the year and any remainder may be deducted against taxable capital gains in any of the three preceding taxation years or any subsequent taxation year, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of any dividends received or deemed to be received by the Resident Holder on such Common Share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a Common Share is owned by a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. Such Resident Holders should consult their own advisors.

A Resident Holder that is throughout the relevant taxation year a "Canadian-controlled private corporation" may be liable to pay an additional refundable tax on its "aggregate investment income", which is defined in the Tax Act to include an amount in respect of taxable capital gains.

### **Taxation of Holders not Resident in Canada**

The following portion of the summary is generally applicable to a Holder who, at all relevant times, for the purposes of the Tax Act, is not, and is not deemed to be, resident in Canada and does not use or hold the Common Shares in a business carried on in Canada (a "**Non-Resident Holder**"). Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer that carries on an insurance business in Canada and elsewhere.

#### ***Spin-Off***

Non-Resident Holders who receive Common Shares pursuant to the spin-off will be considered to have received a taxable dividend equal to the aggregate fair market value of the Common Shares so received plus the amount of any cash received in lieu of fractional Common Shares. The dividend will be subject to Canadian federal withholding tax under Part XIII of the Tax Act at the rate of 25.0% of the amount of the dividend, subject to a possible reduction under the terms of an applicable income tax treaty or convention. To satisfy this withholding tax liability, Brookfield Asset Management will withhold a portion of the Common Shares otherwise distributable and a portion of any cash distribution in lieu of fractional Common Shares otherwise distributable. Brookfield Asset Management will purchase withheld Common Shares at a price equal to the fair market value of the Common Shares determined by reference to the five day volume-weighted average of the trading price of the Common Shares following the Distribution Date. The proceeds of this sale of the withheld Common Shares together with the amount of any cash withheld from any cash distribution in lieu of fractional Common Shares will be remitted to the Canadian federal government in satisfaction of the withholding tax liabilities described above. Where the rate at which tax is withheld with respect to a Non-Resident Holder's taxable dividend exceeds the rate that is applicable after giving effect to the terms of any relevant income tax treaty or convention, a refund or credit may be claimed by the Non-Resident Holder.

The adjusted cost base to a Non-Resident Holder of the Common Shares received upon the spin-off will be equal to the fair market value of the Common Shares so received. In computing the adjusted cost base of the Common Shares at any time, the adjusted cost base of a Non-Resident Holder's Common Shares received pursuant to the spin-off will be averaged with the adjusted cost base of all other Common Shares, if any, held by the Non-Resident Holder as capital property at the particular time.

#### ***Dividends on the Common Shares***

Dividends paid or credited on the Common Shares or deemed to be paid or credited on the Common Shares to a Non-Resident Holder will be subject to Canadian withholding tax at the rate of 25.0%, subject to any reduction in the rate of withholding to which the Non-Resident Holder is entitled under any applicable income tax convention.

### *Disposition of the Common Shares*

A Non-Resident Holder will not be subject to tax under the Tax Act on a disposition of the Common Shares unless the Common Shares are “taxable Canadian property” of the Non-Resident Holder at that time. As long as the Common Shares are listed on a “designated stock exchange”, the Common Shares will generally not be “taxable Canadian property” of a Non-Resident Holder at a particular time unless at any time during the 60-month period immediately preceding that time: (A) the Non-Resident Holder, persons with whom the Non-Resident Holder did not deal at arm’s length, partnerships in which the Non-Resident Holder or persons with whom the Non-Resident Holder did not deal at arm’s length holds a membership interest, directly or indirectly through one or more other partnerships, or the Non-Resident Holder together with all such persons or partnerships, owned 25.0% or more of the Common Shares; and (B) more than 50.0% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of: (i) real or immovable property situated in Canada, (ii) “Canadian resource properties” (as defined in the Tax Act), (iii) “timber resource properties” (as defined in the Tax Act), and (iv) options in respect of, or interests in, property described in (i) to (iii), whether or not the property exists. Management does not expect the Common Shares to be “taxable Canadian property” of a Non-Resident Holder at any relevant time, but no assurance can be given in this regard. Non-Resident Holders whose Common Shares are “taxable Canadian property” should consult their own tax advisors.

### **CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a summary of certain material U.S. federal income tax consequences generally applicable to U.S. Holders of (i) the distribution of Common Shares pursuant to the spin-off and (ii) the ownership and disposition of such Common Shares. This discussion addresses only those holders that hold Class A Shares or Class B Shares, and will hold Common Shares received in the distribution, as capital assets for U.S. federal income tax purposes (generally, property held for investment). This discussion does not constitute tax advice and does not address all aspects of U.S. federal income taxation that may be relevant to particular holders of Class A Shares or Class B Shares or Common Shares in light of their personal circumstances, or to any holders subject to special treatment under the Code (as defined below), such as:

- banks, mutual funds and other financial institutions;
- real estate investment trusts and regulated investment companies;
- traders in securities who elect to apply a mark-to-market method of accounting;
- tax-exempt organizations or governmental organizations;
- insurance companies;
- dealers or brokers in securities or foreign currency;
- individual retirement and other deferred accounts;
- U.S. Holders whose functional currency is not the U.S. dollar;
- U.S. expatriates and former citizens or long-term residents of the United States;
- “passive foreign investment companies” or “controlled foreign corporations”, and corporations that accumulate earnings to avoid U.S. federal income tax;
- persons subject to the alternative minimum tax or to the 3.8% Medicare tax on net investment income;
- U.S. Holders who own or are deemed to own 10.0% or more of the voting stock of Brookfield Asset Management or Trisura Group;
- persons who hold their shares as part of a straddle, hedging, conversion, constructive sale or other risk reduction transaction;
- persons who purchase or sell their shares as part of a wash sale for tax purposes;

- partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes, or other pass-through entities (and investors therein); and
- persons who received their shares through the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan.

For purposes of this discussion, a “**U.S. Holder**” means a beneficial owner of Class A Shares or Class B Shares or, after the completion of the spin-off, Common Shares, that for U.S. federal income tax purposes is:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust has a valid election in effect under applicable Treasury Regulations (as defined below) to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership, including for this purpose any arrangement or entity that is treated as a partnership for U.S. federal income tax purposes, holds Class A Shares or Class B Shares or, after completion of the spin-off, Common Shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. Holders that are partnerships for U.S. federal income tax purposes and the partners in such partnerships are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the spin-off and the ownership and disposition of Common Shares.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), the U.S. Treasury Regulations promulgated thereunder (the “**Treasury Regulations**”), judicial decisions, published positions of the Internal Revenue Service (the “**IRS**”), and other applicable authorities, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect, and to differing interpretations. This discussion does not address all U.S. federal tax laws (such as estate or gift tax laws), nor does it address any aspects of U.S. state or local or non-U.S. taxation. We do not intend to seek any ruling from the IRS, or an opinion from legal counsel, regarding the U.S. federal income tax consequences of the spin-off or the other matters discussed below. There can be no assurance that the IRS will not challenge the conclusions reflected herein or that a court would not sustain any such challenge.

**This discussion is for informational purposes only and is not tax advice. Holders of Class A Shares or Class B Shares or, after the completion of the spin-off, Common Shares are urged to consult their own tax advisors regarding the U.S. federal income tax consequences to them of the spin-off and the ownership and disposition of Common Shares in light of their particular circumstances, as well as any tax consequences of such matters arising under the U.S. federal tax laws other than those pertaining to income tax, including estate or gift tax laws, or under any state, local, or non-U.S. tax laws or under any applicable income tax treaty.**

### **U.S. Federal Income Tax Consequences of the Spin-Off**

For U.S. federal income tax purposes, our Company and Brookfield Asset Management intend to treat the special dividend of Common Shares pursuant to the spin-off as a tax-free distribution under Section 355 of the Code, although this position is not free from doubt. No definitive determination as to the application of Section 355 to the spin-off can be made, as the analysis depends on the application of a complex statutory and regulatory regime to historical, current, and future facts, including motivations and business judgments. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to any of the positions described herein.

Assuming that the distribution qualifies as tax-free, the distribution of Common Shares to U.S. Holders of Class A Shares or Class B Shares will result in the following tax consequences:

- Except for any cash received in lieu of fractional Common Shares, a U.S. Holder will not recognize any income, gain or loss as a result of the receipt of Common Shares in the distribution.

- The aggregate tax basis in Class A Shares or Class B Shares and Common Shares in the hands of each U.S. Holder immediately after the distribution will be the same as the aggregate tax basis of the Class A Shares or Class B Shares held by such holder immediately before the distribution, allocated between the Class A Shares or Class B Shares and Common Shares (including fractional Common Shares) in proportion to their relative fair market values immediately following the distribution.
- A U.S. Holder's holding period in the Common Shares received in the distribution will include the holding period of the Class A Shares or Class B Shares with respect to which the Common Shares were received.
- The receipt of cash in lieu of fractional Common Shares generally will be treated as a sale of the fractional Common Shares, and a U.S. Holder will recognize gain or loss equal to the difference between the amount of cash received and such holder's basis in the fractional Common Shares, as determined above. The gain or loss will be long-term capital gain or loss if the holding period for the fractional Common Shares is more than one year. The deductibility of capital losses is subject to limitations. Any gain or loss generally will be treated as U.S.-source gain or loss.

U.S. Holders of Class A Shares or Class B Shares that have acquired different blocks of Class A Shares or Class B Shares at different times or at different prices are urged to consult their own tax advisors regarding the allocation of their aggregate tax basis in, and their holding period in, the Common Shares distributed with respect to blocks of Class A Shares or Class B Shares.

If, contrary to expectation, the spin-off were determined not to qualify for non-recognition of gain and loss to U.S. Holders under Section 355 of the Code, then each U.S. Holder of Class A Shares or Class B Shares who receives Common Shares in the distribution generally would be treated as receiving a taxable distribution equal to the fair market value of the Common Shares (determined at the time of the spin-off) received by such holder in the distribution (including fractional Common Shares). In such event, the gross amount of the distribution (without reduction for any Canadian tax withheld from such distribution) would be treated as a taxable dividend to each U.S. Holder of Class A Shares or Class B Shares, but only to the extent of Brookfield Asset Management's current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent that the amount of such distribution were to exceed Brookfield Asset Management's current and accumulated earnings and profits, it would be treated first as a non-taxable return of capital to the extent of a U.S. Holder's tax basis in Class A Shares or Class B Shares and thereafter would be treated as gain from the sale or exchange of such shares. Brookfield Asset Management does not intend to calculate its earnings and profits under U.S. federal income tax principles. Thus, U.S. Holders should expect that any distribution that fails to qualify for non-recognition under Section 355 of the Code would be treated as a dividend for U.S. federal income tax purposes. The amount of the distribution treated as a dividend and received by an individual or other non-corporate U.S. Holder generally would be subject to tax at preferential rates applicable to long-term capital gains, provided that Brookfield Asset Management is not treated as a passive foreign investment company ("PFIC") for the taxable year in which the distribution pursuant to the spin-off occurs or for the preceding taxable year, and certain holding period and other requirements are met. The distribution of Common Shares would not be eligible for the dividends-received deduction generally allowed to corporations in respect of dividends received from other U.S. corporations.

Payments of cash in lieu of fractional Common Shares to a U.S. Holder pursuant to the spin-off may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption or, in the case of backup withholding, furnishes its taxpayer identification number and otherwise complies with all applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and generally will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of the spin-off.



## **U.S. Federal Income Tax Consequences of the Ownership and Disposition of Common Shares Received in the Spin-Off**

### ***Distributions on Common Shares***

Subject to the discussion below under “—Passive Foreign Investment Company Considerations”, a U.S. Holder that receives a distribution with respect to Common Shares generally will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian tax withheld from such distribution) to the extent of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). To the extent the amount of such distribution exceeds such current and accumulated earnings and profits, it will be treated first as a non-taxable return of capital to the extent of such U.S. Holder’s tax basis in such Common Shares and thereafter will be treated as gain from the sale or exchange of such Common Shares. Trisura Group currently does not intend to calculate its earnings and profits under U.S. federal income tax principles. Thus, U.S. Holders should expect that distributions will be reported as dividends for U.S. federal income tax purposes.

Dividends received by individuals and other non-corporate U.S. Holders on Common Shares generally will be subject to tax at preferential rates applicable to long-term capital gains, provided that such holders meet certain holding period and other requirements, Trisura Group is not treated as a PFIC for the taxable year in which the dividend is paid or for the preceding taxable year, and Trisura Group is eligible for the benefits of a comprehensive income tax treaty with the United States. Trisura Group expects to be eligible for such treaty benefits. Dividends on Common Shares will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations. U.S. Holders are urged to consult their own tax advisors regarding the application of the relevant rules to their particular circumstances.

The U.S. dollar value of any distribution on Common Shares made in Canadian dollars generally should be calculated by reference to the exchange rate between the U.S. dollar and the Canadian dollar in effect on the date of receipt of such distribution by the U.S. Holder, regardless of whether the Canadian dollars so received are in fact converted into U.S. dollars. If the Canadian dollars so received are converted into U.S. dollars on the date of receipt, such U.S. Holder generally should not recognize foreign currency gain or loss on such conversion. If the Canadian dollars so received are not converted into U.S. dollars on the date of receipt, such U.S. Holder generally will have a tax basis in such Canadian dollars equal to the U.S. dollar value of such Canadian dollars on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of such Canadian dollars generally will be treated as ordinary income or loss to such U.S. Holder and generally will be income or loss from sources within the United States for U.S. foreign tax credit purposes.

Dividends paid by Trisura Group generally will constitute foreign-source income for foreign tax credit limitation purposes. A U.S. Holder may be entitled to deduct or credit any Canadian withholding taxes on dividends in determining its U.S. income tax liability, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of such U.S. Holder’s foreign taxes for a particular tax year). The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends distributed by Trisura Group with respect to Common Shares generally will constitute “passive category income”. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

### ***Disposition of Common Shares***

Subject to the discussion below under “—Passive Foreign Investment Company Considerations” and “—Related Person Insurance Income”, a U.S. Holder generally will recognize capital gain or loss on any sale, exchange, or other taxable disposition of its Common Shares in an amount equal to the difference between the amount realized for the Common Shares and such U.S. Holder’s tax basis in the Common Shares (as determined above). Any such capital gain or loss will be long-term if the U.S. Holder’s holding period in the shares exceeds one year. Long-term capital gains of non-corporate taxpayers generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss generally will be treated as U.S.-source gain or loss.

### *Passive Foreign Investment Company Considerations*

In general, a non-U.S. corporation will be a PFIC during a taxable year if (i) 75.0% or more of its gross income constitutes “passive income” or (ii) 50.0% or more of its assets produce (or are held for the production of) passive income. For purposes of the PFIC determination, passive income generally includes interest, dividends, annuities, and other investment income. Income derived in the active conduct of an insurance business by a corporation that is predominantly engaged in an insurance business, however, is not treated as passive income, provided that the corporation does not maintain financial reserves in excess of the reasonable needs of its insurance business. In determining whether a non-U.S. corporation is a PFIC, the corporation is treated under a “look through” rule as if it received directly its proportionate share of the income, and held its proportionate share of the assets, of another corporation if it owns at least 25.0% of the value of the stock of such other corporation.

The insurance exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. We currently expect that, for purposes of the PFIC rules, each of our non-U.S. subsidiaries will be predominantly engaged in the active conduct of an insurance business and is unlikely to have financial reserves in excess of the reasonable needs of its insurance business. Accordingly, we currently expect the income and assets of our non-U.S. subsidiaries generally to be treated as non-passive for PFIC purposes, and therefore we do not expect our non-U.S. subsidiaries to be treated as PFICs for the current taxable year. Nor do we currently expect a material amount of any other income or assets to be treated as passive income or assets that produce (or are held for the production of) passive income, so as to cause Trisura Group to be a PFIC. Accordingly, under the 25.0% look-through rule, we currently expect that Trisura Group will not be treated as a PFIC for the current taxable year.

However, the PFIC determination is made annually at the end of each taxable year and is dependent upon a number of factors, some of which are beyond our control, including the value of our assets and the amount and type of our income. Moreover, no final or temporary Treasury Regulations currently exist regarding the application of the PFIC provisions to an insurance company. Proposed PFIC regulations regarding insurance companies were issued in 2015, but these regulations will not become effective until adopted in final form. It is unclear whether and how such regulations, if finalized, would affect the characterization of Trisura Group and its non-U.S. subsidiaries. Thus, there can be no assurance that we will not become a PFIC in any taxable year or that the IRS will agree with our conclusion regarding our PFIC status.

If Trisura Group were a PFIC for any taxable year during which a U.S. Holder owned Common Shares, then gain recognized by such U.S. Holder upon the sale or other taxable disposition of the Common Shares would be allocated ratably over the U.S. Holder’s holding period for such shares. The amount allocated to the taxable year of the sale or other disposition and to any year before Trisura Group became a PFIC would be taxable as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to each such taxable year. Further, any distribution on the Common Shares in excess of 125.0% of the average of the annual distributions on such Common Shares received by a U.S. Holder during the preceding three years or the U.S. Holder’s holding period, whichever is shorter, would be subject to taxation in the same manner as gain, as described immediately above. If Trisura Group were classified as a PFIC in any year that a U.S. Holder held Common Shares, Trisura Group generally would continue to be treated as a PFIC with respect to that U.S. Holder in all succeeding years, even if Trisura Group ceased to satisfy the requirements for being a PFIC. In addition, a U.S. Holder would be treated as owning a proportionate interest in the shares of any non-U.S. subsidiaries treated as PFICs and would be subject to the PFIC rules on a separate basis with respect to its indirect interests in any such lower-tier PFICs.

If Trisura Group were a PFIC, a U.S. Holder might be able to mitigate the negative tax consequences described above by making a “qualified electing fund” election or “mark to market” election with respect to such holder’s Common Shares. However, we do not expect to provide the information necessary for U.S. Holders to make “qualified electing fund” elections in the event we are treated as a PFIC. Moreover, although we expect a “mark-to-market” election to be available with respect to the Common Shares, it is not clear that such election would mitigate the negative tax consequences with respect to any lower-tier PFICs.

treated as owned indirectly by a U.S. Holder through such holder's ownership of Common Shares. Nor is a mark-to-market election expected to be available with respect to shares of lower-tier PFICs, if any. U.S. Holders are urged to consult their own tax advisors regarding the availability and advisability of such elections.

Subject to certain exceptions, if a U.S. Holder owns Common Shares during any taxable year in which Trisura Group is a PFIC, that holder generally will be required to file IRS Form 8621 both with respect to Trisura Group and with respect to any lower-tier PFICs. Significant penalties are imposed for failing to file IRS Form 8621, and the failure to file such form may suspend the running of the statute of limitations. U.S. Holders are urged to consult their own tax advisors regarding the application of the PFIC rules to their ownership and disposition of Common Shares.

### ***Related Person Insurance Income***

Certain adverse U.S. federal income and tax reporting rules may apply to a U.S. person who, directly or indirectly, owns stock of a non-U.S. corporation that earns "related person insurance income" ("**RPII**"). Because Trisura Group will be a holding company, and will not itself be licensed as an insurance company, we do not expect Trisura Group to have income treated as RPII. However, the RPII rules of the Code generally will apply to U.S. Holders who, through their ownership of Common Shares, are indirect shareholders of a non-U.S. insurance subsidiary if (i) the subsidiary is a "controlled foreign corporation" for RPII purposes (an "**RPII CFC**"), which generally will be the case if 25.0% or more of the value or voting power of such non-U.S. insurance subsidiary's shares is owned (directly, indirectly through non-U.S. entities, or by the application of certain constructive ownership rules) by U.S. persons, and (ii) neither of the exceptions described below applies.

RPII is "insurance income" (as defined below) from the direct or indirect insurance or reinsurance of any U.S. person who holds shares of the applicable non-U.S. insurance subsidiary (directly or indirectly through non-U.S. entities) or of a person related to such a U.S. person. In general, and subject to certain limitations, "insurance income" is income, including investment income and premium income, attributable to the issuing of any insurance or reinsurance contract that would be taxed under the portions of the Code relating to insurance companies if the income were the income of a U.S. insurance company. A non-U.S. insurance subsidiary may be considered to indirectly reinsure the risk of a U.S. person that holds shares, directly or indirectly, and thus generate RPII, if an unrelated company that insured such risk in the first instance reinsures the risk with such non-U.S. insurance subsidiary.

The RPII rules do not apply to income derived from a non-U.S. insurance subsidiary if (i) direct and indirect insureds and persons related to such insureds, whether or not U.S. persons, are treated as owning (directly or indirectly through entities) less than 20.0% of the voting power and less than 20.0% of the value of the shares of such non-U.S. insurance subsidiary (the "**20% Ownership Exception**") or (ii) RPII, determined on a gross basis, is less than 20.0% of the gross insurance income of such non-U.S. insurance subsidiary for the taxable year (the "**20% Gross Income Exception**"). Although Trisura Group will own interests in non-U.S. insurance subsidiaries, we expect each of these subsidiaries to operate in such a manner as to qualify for at least one of the foregoing exceptions. In such case, U.S. Holders would not be treated as earning RPII. However, because the RPII determination is made annually and depends on a number of factors, some of which are beyond our control, including the ownership of Common Shares and the amount of RPII, there can be no assurance that the above RPII rules will not apply in the future to income earned by our non-U.S. insurance subsidiaries or that the IRS will agree with our conclusion regarding the application of the RPII rules. If none of the exceptions described above were to apply to a non-U.S. insurance subsidiary for a taxable year, then each U.S. person (including a U.S. Holder) who, directly or indirectly through non-U.S. entities, owned Common Shares on the last day of such non-U.S. insurance subsidiary's taxable year would be taxable currently with respect to its allocable share of RPII (whether distributed or not) for the portion of the taxable year during which the non-U.S. insurance subsidiary was an RPII CFC. Such U.S. person might also be required to file IRS Form 5471, disclosing certain information regarding direct or constructive ownership of such non-U.S. insurance subsidiary.

In addition, under Section 1248 of the Code, if 25.0% or more (by vote or value) of the shares of any non-U.S. corporation that would be taxable as an insurance company if it were a U.S. corporation is, directly or indirectly, owned by U.S. shareholders, then some or all of the gain recognized by a U.S. shareholder upon the disposition of shares in such non-U.S. corporation may be treated as ordinary income, rather than capital gain. This result is not affected by whether the 20% Ownership Exception or the 20% Gross Income Exception applies. Existing Treasury Regulations do not specifically address whether or how Section 1248 would apply to the disposition of shares in a non-U.S. corporation that does not directly engage in the insurance business, such as Trisura Group, but that has non-U.S. subsidiaries that would be taxable as insurance companies if they were U.S. corporations. We believe that even if 25.0% or more (by vote or value) of the Common Shares are directly or indirectly owned by U.S. shareholders, Section 1248 should not to apply to the disposition of Common Shares, because Trisura Group is not directly engaged in the insurance business. However, there can be no assurance that the IRS will not interpret Section 1248 in a contrary manner or that the Treasury Regulations will not be amended in a manner such that Section 1248 and the requirement to file IRS Form 5471 would apply to the disposition of Common Shares by a U.S. Holder. U.S. Holders are urged to consult their own tax advisors regarding the effects of these rules.

#### ***Backup Withholding and Information Reporting***

Payments of dividends to a U.S. Holder and proceeds from the sale or other disposition of Common Shares may, under certain circumstances, be subject to information reporting and backup withholding, unless the holder provides proof of an applicable exemption or, in the case of backup withholding, furnishes its taxpayer identification number and otherwise complies with all applicable requirements of the backup withholding rules. Backup withholding is not an additional tax and generally will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

#### ***Foreign Asset Reporting***

Certain U.S. Holders are required to report information relating to an interest in the Common Shares, subject to certain exceptions (including an exception for shares held in accounts maintained by certain financial institutions) by filing IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their U.S. federal income tax returns. U.S. Holders are urged to consult their own tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of Common Shares.

### **LEGAL MATTERS**

The matters referred to under "Eligibility for Investment" and "Certain Canadian Federal Income Tax Considerations", as well as certain other legal matters relating to the issue and sale of the Common Shares, will be passed upon on behalf of Trisura Group by Torys LLP. As at the date of this prospectus, the partners and associates of Torys LLP beneficially own, directly and indirectly, less than 1.0% of the outstanding securities or other property of Trisura Group, its associates or its affiliates.

### **PROMOTER**

Brookfield Asset Management has taken the initiative in founding and organizing our Company and accordingly may be considered to be a promoter within the meaning of Canadian provincial securities legislation.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

Our Company is, from time to time, involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations.

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

Other than as described below, none of the directors, executive officers, employees, former directors, former executive officers or former employees of Trisura Group or any of its subsidiaries, and none of their respective associates, is or has within 30 days before the date of this prospectus or at any time since the beginning of the most recently completed financial year been indebted to Trisura Group or any of its subsidiaries or another entity whose indebtedness is the subject of a guarantee, support agreement, letter of credit or other similar agreement or understanding provided by Trisura Group or any of its subsidiaries.

### Aggregate Indebtedness

Purpose	To us or our Subsidiaries	To Another Entity
Share Purchases . . . . .	\$1.6 million	\$—
Other . . . . .	\$ —	\$—

### Indebtedness of Directors and Executive Officers under Securities Purchase and Other Programs

Name and Principal Position	Involvement of Company or Subsidiary	Largest Amount Outstanding During Fiscal 2016	Amount Outstanding as at April 30, 2017	Financially Assisted Securities Purchases During Fiscal 2016	Security for Indebtedness	Amount Forgiven During Fiscal 2016
<b>Securities Purchase Programs</b>						
Michael George, President and CEO of TGI . . . . .	TG Holdco is the lender	\$326.0 thousand	\$264.0 thousand	—	—	—
<b>Other Programs</b>						
	—	—	—	—	—	—

See “TG Holdco — TG Holdco Share Purchase Plans” for further details.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as discussed in this prospectus, there are no material interests, direct or indirect, of any director or executive officer of Trisura Group, any shareholder that beneficially owns, or controls or directs (directly or indirectly), more than 10.0% of any class or series of Trisura Group’s outstanding voting securities, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date hereof that has materially affected or is reasonably expected to materially affect Trisura Group or any of its subsidiaries.

## AUDITOR, TRANSFER AGENT AND REGISTRAR

Deloitte LLP, the auditor of the financial statements of 6436978 Canada Limited as of December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016, is independent of our Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario. The offices of Deloitte LLP are located at 22 Adelaide Street West, Toronto, Ontario, M5H 0A9.

Deloitte LLP, the auditor of the statement of financial position of Trisura Group Ltd. as of April 30, 2017, is independent of our Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario. The offices of Deloitte LLP are located at 22 Adelaide Street West, Toronto, Ontario, M5H 0A9.

KPMG, the auditor of the comparative consolidated financial statements of Imagine Group Holdings Limited as at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016, is independent of Imagine Group Holdings Limited within the meaning of the

relevant rules prescribed by the Institute of Chartered Accountants of Barbados. The offices of KPMG are located at Hastings, Christ Church BB15154, Barbados, West Indies.

The transfer agent and registrar for the Common Shares will be CST Trust Company at its principal office in Toronto, Ontario, Canada.

#### **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

Messrs. Hedges and Morrison, two of the directors of Trisura Group, are residents of jurisdictions outside of Canada. Messrs. Hedges and Morrison have each expressly submitted to the jurisdiction of the Ontario courts and have appointed the following agent for service of process in Ontario:

<u>Name of Person</u>	<u>Name and Address of Agent</u>
Barton Hedges Greg Morrison	Trisura Group Ltd. 333 Bay Street, Suite 1610, Box 22 Toronto, Ontario, Canada M5H 2R2

You are advised that it may not be possible for you to enforce judgments obtained in Canada against any person who resides outside of Canada, even if the person has appointed an agent for service of process.

#### **MATERIAL CONTRACTS**

The following are the only material contracts, other than the contracts entered into in the ordinary course of business, which have been entered into by us since our formation or which are proposed to be entered into by us:

- (a) the TG Holdco Unanimous Shareholder Agreement;
- (b) the Management Services Agreement; and
- (c) the securities purchase agreements with Brookfield Asset Management or its subsidiaries pursuant to which we will acquire our operating subsidiaries from Brookfield Asset Management, or such subsidiaries.

Copies of the foregoing documents will be available following completion of the spin-off on SEDAR.

#### **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Canadian securities legislation requires the following language to appear in this prospectus:

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

However, in light of the fact that the Common Shares are being distributed pursuant to the spin-off, we believe that these remedies are not available in the circumstances of this distribution.

## GLOSSARY

“**20% Gross Income Exception**” has the meaning ascribed thereto under “Certain United States Federal Income Tax Considerations — U.S. Federal Income Tax Consequences of the Ownership and Disposition of Common Shares Received in the Spin-Off — Related Person Insurance Income”;

“**20% Ownership Exception**” has the meaning ascribed thereto under “Certain United States Federal Income Tax Considerations — U.S. Federal Income Tax Consequences of the Ownership and Disposition of Common Shares Received in the Spin-Off — Related Person Insurance Income”;

“**Advance Notice Provisions**” has the meaning ascribed thereto under “Governance — Advance Notice Provisions”;

“**Affected TG Holdco Shares**” has the meaning ascribed thereto under “TG Holdco — TG Holdco Unanimous Shareholder Agreement — Right of First Offer of the TG Management Group”;

“**AFS**” means available-for-sale;

“**A.M. Best**” means A.M. Best Company, Inc.;

“**Annual Retainer**” has the meaning ascribed thereto under “Director Compensation — Overview”;

“**Appointed Actuary**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee — Appointed Actuary”;

“**Audit Committee**” means the audit committee of the Board, as further described under “Governance — Committees of the Board — Audit Committee”;

“**Board**” means the board of directors of Trisura Group;

“**Brookfield Asset Management**” means Brookfield Asset Management Inc.;

“**Brookfield Business Partners**” means Brookfield Business Partners L.P.;

“**Capacity Providers**” has the meaning ascribed thereto under “Risk Factors — Ability to Recover Amounts Due from Capacity Providers”;

“**case**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee — Results of Operations — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015 — Claims and Loss Adjustment Expenses”;

“**CDS**” means CDS Clearing and Depository Services Inc.;

“**CEO**” means chief executive officer;

“**CFO**” means chief financial officer;

“**Chair**” means the chair of the Board;

“**Class A Shares**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Class B Shares**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Code**” means the U.S. Internal Revenue Code of 1986, as amended;

“**Code of Conduct**” means the code of business conduct and ethics of Trisura Group, as further described under “Governance — Code of Business Conduct and Ethics”;

“**Common Shares**” means the common shares in the capital of Trisura Group, as further described under “Description of our Share Capital — Common Shares”, and “**Common Share**” means any one of them;

“**Committees**” means the Audit Committee and the Governance Committee;

“**Company**” means Trisura Group together with all of its subsidiaries, as interpreted in the manner described under “Meaning of Certain References”;

“**CRA**” means the Canada Revenue Agency;

“**D&O**” means directors’ and officers’ liability;

“**Distribution Date**” has the meaning ascribed thereto on the cover page of this prospectus;

“**DSUs**” has the meaning ascribed thereto under “Director Compensation — Overview”;

“**DTC**” means the Depository Trust Company;

“**E&O**” means errors and omissions liability;

“**forward-looking information**” has the meaning ascribed thereto under “Special Note Regarding Forward-Looking Information”;

“**FVTPL**” means fair value through profit and loss;

“**GAO Life Reinsurance Contract**” has the meaning ascribed thereto under “Business of Trisura Group — Business Lines — Reinsurance”;

“**GAOs**” means guaranteed annuity options;

“**Governance Committee**” means the governance and compensation committee of the Board, as further described under “Governance — Committees of the Board — Governance Committee”;

“**Holder**” has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations”;

“**IBNR**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee — Results of Operations — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015 — Claims and Loss Adjustment Expenses”;

“**ICA**” means the *Insurance Companies Act* (Canada);

“**IFRS**” means International Financial Reporting Standards;

“**IRS**” means the Internal Revenue Service;

“**loss ratio**” has the meaning ascribed thereto under “Operating Metrics”;

“**L’Unique**” means L’Unique General Insurance Inc.;

“**Management Services Agreement**” has the meaning ascribed thereto under “Executive Compensation — Management Services Agreement”;

“**Material Breaches**” has the meaning ascribed thereto under “Executive Compensation — Management Services Agreement”;

“**MCT**” has the meaning ascribed thereto under “Operating Metrics”;

“**MGAs**” means managing general agents;

“**Minister**” means the Minister of Finance (Canada);

“**NEOs**” means the named executive officers of our Company, as further described under “Executive Compensation — Overview”;

“**NI 52-110**” means National Instrument 52-110 — *Audit Committees* of the Canadian Securities Administrators, as amended from time to time;

“**Non-Resident Holder**” has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations — Taxation of Holders not Resident in Canada”;

“**NRRA**” means the Nonadmitted and Reinsurance Reform Act contained in the United States *Dodd-Frank Wall Street Reform and Consumer Protection Act*;

“**NYSE**” means the New York Stock Exchange;

“**OBCA**” means the *Business Corporations Act* (Ontario);



“**ORSA**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee — Liquidity and Capital Resources — Regulatory Capital Management”;

“**OSFI**” means the Office of the Superintendent of Financial Institutions;

“**P&C**” means property and casualty;

“**PFIC**” has the meaning ascribed thereto under “Certain United States Federal Income Tax Considerations — U.S. Federal Income Tax Consequences of the Spin-Off”;

“**Proposed Amendments**” has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations”;

“**prospectus**” means this prospectus and U.S. information statement dated as of May 12, 2017;

“**PVI**” means Partners Value Investments LP;

“**RDSP**” means registered disability savings plan;

“**Record Date**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Regulation S**” means Regulation S promulgated under the U.S. Securities Act;

“**Resident Holders**” has the meaning ascribed thereto under “Certain Canadian Federal Income Tax Considerations — Taxation of Holders Resident in Canada”;

“**RESP**” means registered education savings plan;

“**ROE**” has the meaning ascribed thereto under “Operating Metrics”;

“**RPII**” means related person insurance income;

“**RPII CFC**” has the meaning ascribed thereto under “Certain United States Federal Income Tax Considerations — U.S. Federal Income Tax Consequences of the Ownership and Disposition of Common Shares Received in the Spin-Off — Related Person Insurance Income”;

“**RRIF**” means registered retirement income fund;

“**RRSP**” means registered retirement savings plan;

“**SEC**” means the United States Securities and Exchange Commission;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval at [www.sedar.com](http://www.sedar.com);

“**Share Option Plan**” has the meaning ascribed thereto under “Executive Compensation — Principal Elements of Compensation — Share Option Plan — Overview”;

“**spin-off**” has the meaning ascribed thereto on the cover page of this prospectus;

“**Superintendent**” means the Superintendent of Financial Institutions;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder;

“**TFSA**” means tax-free savings account;

“**TG Credit Facility**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee — Financial Position — Liabilities and Shareholders’ Equity — Bank Loan”;

“**TG Holdco**” means 6436978 Canada Limited;

“**TG Holdco Unanimous Shareholder Agreement**” means the third amended and restated unanimous shareholder agreement of TG Holdco to be entered into in connection with the spin-off between TG Holdco, Trisura Group and the TG Management Group, as further described under “TG Holdco — TG Holdco Unanimous Shareholder Agreement”;

“**TG Management Group**” has the meaning ascribed thereto under “Summary — Ownership and Organizational Structure”;

“**TG Risk Solutions Claim**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee — Results of Operations — Year Ended December 31, 2016 Compared to Year Ended December 31, 2015 — Claims and Loss Adjustment Expenses”;

“**TG SPP**” has the meaning ascribed thereto under “TG Holdco — TG Holdco Share Purchase Plans”;

“**TGI**” means Trisura Guarantee Insurance Company;

“**Treasury Regulations**” means the U.S. Treasury Regulations promulgated under the Code;

“**Trisura Group**” means Trisura Group Ltd.;

“**Trisura Guarantee**” means, collectively, TG Holdco and TGI;

“**Trisura International**” means, collectively, Trisura International Holdco and its subsidiaries, including Trisura International Insurance;

“**Trisura International Credit Facility**” has the meaning ascribed thereto under “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura International — Liquidity and Capital Resources — Financing Activities”;

“**Trisura International Holdco**” means Trisura International Holdings Ltd. (formerly Imagine Group Holdings Limited);

“**Trisura International Insurance**” means Trisura International Insurance Ltd. (formerly Imagine Insurance Company Limited);

“**Trisura US**” means Trisura Specialty Insurance Company;

“**TSX**” means the Toronto Stock Exchange;

“**U.S.**” means United States;

“**U.S. Brookfield Shareholders**” means persons in or subject to the securities laws of the United States who are issued Common Shares;

“**U.S. Exchange Act**” means the United States *Securities Exchange Act of 1934*, as amended, and the rules and regulations promulgated from time to time thereunder;

“**U.S. Holder**” has the meaning ascribed thereto under “Certain United States Federal Income Tax Considerations”;

“**U.S. Securities Act**” means the United States *Securities Act of 1933*, as amended, and the rules and regulations promulgated from time to time thereunder; and

“**United States**” has the meaning ascribed thereto in Regulation S under the U.S. Securities Act.

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**Audited Financial Statements of  
Trisura Group Ltd.**

## Independent Auditor's Report

To the Board of Directors of  
Trisura Group Ltd.

We have audited the accompanying statement of financial position of Trisura Group Ltd. as at April 30, 2017, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Statement of Financial Position

Management is responsible for the preparation and fair presentation of the statement of financial position in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of the statement of financial position that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

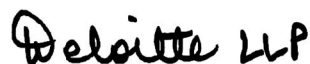
Our responsibility is to express an opinion on the statement of financial position based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement of financial position is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of financial position. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement of financial position, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the statement of financial position in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial position.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the statement of financial position presents fairly, in all material respects, the financial position of Trisura Group Ltd. as at April 30, 2017 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants  
May 12, 2017

**TRISURA GROUP LTD.**  
**STATEMENT OF FINANCIAL POSITION**

	<u>As at April 30, 2017</u> (C\$)
<b>Assets</b>	
Cash .....	<u>\$1,000</u>
<b>Equity</b>	
Share capital .....	<u>\$1,000</u>

*The accompanying notes are an integral part of the statement of financial position*

**TRISURA GROUP LTD.**  
**NOTES TO THE STATEMENT OF FINANCIAL POSITION**

**NOTE 1. ORGANIZATION**

Trisura Group Ltd. (the “**Company**”) was incorporated under the *Business Corporations Act* (Ontario) on January 27, 2017. The Company’s sole shareholder is Brookfield Asset Management Inc. (the “**parent**”) which contributed \$1,000 in cash for 40 common shares. The Company has been authorized to issue an unlimited number of common shares, an unlimited number of non-voting shares and an unlimited number of preferred shares (issuable in series) and has been established to serve as an international specialty insurance provider operating in the surety, risk solutions, corporate insurance and reinsurance niche segments of the market.

The Company’s registered head office is 333 Bay Street, Suite 1610, Box 22, Toronto, Ontario, Canada M5H 2R2. As at April 30, 2017, the Company had not commenced operations.

The statement of financial position was approved by the Board of Directors of the Company and authorized for issue on May 8, 2017.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Statement of Financial Position has been prepared in accordance with International Financial Reporting Standards. Separate Statements of Operations, Changes in Equity and Cash Flows have not been presented as there have been no activities for the Company since the incorporation date of January 27, 2017 and reporting date of April 30, 2017.

The acquisitions of Trisura International Holdings Ltd. (“**Trisura International Holdco**”) and 6436978 Canada Limited (“**TG Holdco**”) by the Company will each be a common control transaction and recorded at carrying value. Upon completion of the spin-off transaction and in future filings following the completion of the spin-off transaction, the comparative periods preceding the acquisitions will be adjusted to reflect the combined results of Trisura International Holdco and TG Holdco.

**Unaudited Pro Forma Financial Statements of  
Trisura Group Ltd.**



**TRISURA GROUP LTD.**  
**UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION**  
**As at December 31, 2016**  
**\$ thousands, unless otherwise noted**

	Trisura Group Ltd.	Trisura International (note 2c)	Trisura Guarantee	Adjustments	Notes	Trisura Group Ltd. Pro forma
	\$	\$	\$	\$		\$
<b>ASSETS</b>						
Cash and cash equivalents . . . . .	1	92,718	29,378	41,100	<i>note 2a</i>	163,197
Investments . . . . .	—	49,904	129,360	—		179,264
Structured insurance assets . . . . .	—	15,129	—	—		15,129
Accrued investment income . . . . .	—	331	533	—		864
Accounts receivable and other assets . . . . .	—	909	536	—		1,445
Executive share purchase plan receivable . . . . .	—	—	1,542	—		1,542
Deferred acquisition costs . . . . .	—	—	30,985	—		30,985
Premiums and other reinsurance balances receivable . . . . .	—	—	17,887	—		17,887
Reinsurers' share of:						
Unearned premiums . . . . .	—	—	22,444	—		22,444
Unpaid claims and loss adjustment expenses . . . . .	—	—	24,676	—		24,676
Funds held by ceding companies . .	—	406	—	—		406
Property, plant and equipment . . . .	—	—	1,171	—		1,171
Intangible assets . . . . .	—	—	870	—		870
Deferred tax assets . . . . .	—	148	474	—		622
<b>TOTAL ASSETS . . . . .</b>	<b>1</b>	<b>159,545</b>	<b>259,856</b>	<b>41,100</b>		<b>460,502</b>
<b>LIABILITIES</b>						
Accounts payable, accrued and other liabilities . . . . .	—	11,537	10,396	(530)	<i>note 2b</i>	21,403
Reinsurance premiums payable . . .	—	—	13,461	—		13,461
Unearned premiums . . . . .	—	—	90,612	—		90,612
Unearned reinsurance commissions	—	—	4,928	—		4,928
Unpaid claims and loss adjustment provisions . . . . .	—	96,505	67,465	—		163,970
Loans payable . . . . .	—	—	34,100	—		34,100
Income tax payable . . . . .	—	—	3,501	—		3,501
Minority interests in subsidiaries . .	—	—	16,008	—		16,008
	—	108,042	240,471	(530)		347,983
<b>SHAREHOLDERS' EQUITY . . . . .</b>	<b>1</b>	<b>51,503</b>	<b>19,385</b>	<b>41,630</b>	<i>note 2a</i>	<b>112,519</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY . . . . .</b>	<b>1</b>	<b>159,545</b>	<b>259,856</b>	<b>41,100</b>		<b>460,502</b>

*See accompanying notes to the pro forma financial statements*

**TRISURA GROUP LTD.**  
**UNAUDITED PRO FORMA STATEMENT OF INCOME**  
**Year Ended December 31, 2016**  
**\$ thousands, unless otherwise noted**

	Trisura International (note 2c)	Trisura Guarantee	Adjustments	Notes	Trisura Group Ltd. Pro forma
	\$	\$	\$		\$
<b>Gross premiums written</b> . . . . .	163	124,802	—		124,965
Retrospective premium refund . . . . .	—	(284)	—		(284)
Reinsurance premiums ceded . . . . .	(1)	(37,616)	—		(37,617)
<b>Net premiums written</b> . . . . .	162	86,902	—		87,064
Change in unearned premiums . . . . .	—	(14,809)	—		(14,809)
Net premiums earned . . . . .	162	72,093	—		72,255
Fee income . . . . .	13	3,352	—		3,365
	175	75,445	—		75,620
Claims and loss adjustment expenses . . . . .	5,649	35,338	—		40,987
Reinsurers' share of claims and loss adjustment expenses . . . . .	—	(12,942)	—		(12,942)
Commissions . . . . .	723	30,661	—		31,384
Reinsurance commissions . . . . .	—	(8,314)	—		(8,314)
Premium taxes . . . . .	—	3,591	—		3,591
Operating expenses . . . . .	5,124	21,480	—		26,604
	11,496	69,814	—		81,310
<b>NET UNDERWRITING (LOSS) INCOME</b> . . . . .	<b>(11,321)</b>	<b>5,631</b>	<b>—</b>		<b>(5,690)</b>
Investment income . . . . .	10,532	1,137	—		11,669
Foreign exchange loss . . . . .	(528)	—	—		(528)
Interest expense . . . . .	—	(481)	—		(481)
Change in liabilities to participating shareholders . . . . .	—	(155)	—		(155)
Income tax expense . . . . .	(298)	(1,564)	—		(1,862)
<b>NET (LOSS) INCOME</b> . . . . .	<b>(1,615)</b>	<b>4,568</b>	<b>—</b>		<b>2,953</b>
<b>Per Share</b> . . . . .					<b>0.51</b>

*See accompanying notes to the pro forma financial statements*

**TRISURA GROUP LTD.**  
**NOTES TO THE PRO FORMA FINANCIAL STATEMENTS**  
**C\$ thousands, unless otherwise stated**

**1. BASIS OF PRESENTATION**

Trisura Group Ltd. (“**Trisura Group**” or the “**Company**”) is a corporation incorporated under the *Business Corporations Act* (Ontario) on January 27, 2017. Prior to the distribution of all of the common shares of Trisura Group (the “**spin-off**”) to the holders of Class A limited voting shares (“**Class A Shares**”) and Class B limited voting shares (“**Class B Shares**”) of Brookfield Asset Management Inc. (“**Brookfield Asset Management**”), the following transactions (the “**Transactions**”) will be entered into:

- Brookfield Asset Management will subscribe for approximately 5,799,960 common shares of Trisura Group in exchange for approximately \$144,931; and
- Trisura Group will use the \$144,931 of cash received from Brookfield Asset Management to acquire (i) Brookfield Asset Management’s interest in Trisura International Holdings Ltd. (“**Trisura International Holdco**”) for approximately \$51,761, (ii) Brookfield Asset Management’s 60.0% interest in 6436978 Canada Limited (“**TG Holdco**”) for approximately \$51,753, and (iii) Brookfield Asset Management’s interest in the note payable from TG Holdco to Brookfield Asset Management for approximately \$211, leaving Trisura Group with \$41,100 in additional cash.

To execute the spin-off, Brookfield Asset Management will distribute, as a special dividend, its approximately 5,800,000 common shares in Trisura Group on a pro-rata basis to the holders of its Class A Shares and Class B Shares.

The unaudited pro forma financial statements of the Company have been prepared to reflect the impact of the Transactions within Trisura Group based on Brookfield Asset Management’s accounting policy with respect to common control transactions. Accordingly, the acquisitions of Trisura International Holdco and TG Holdco by Trisura Group have been recorded at carrying values. These unaudited pro forma financial statements of the Company are based on preliminary estimates, accounting judgments and currently available information as well as assumptions that management believe to be reasonable. The notes to the unaudited pro forma financial statements of the Company provide a detailed discussion on how such adjustments were derived and presented in the unaudited pro forma financial statements of the Company.

The information included in the unaudited pro forma statement of financial position of the Company gives effect to the Transactions as if they had been consummated on December 31, 2016. The information included in the unaudited pro forma statement of income of the Company gives effect to the Transactions as if they had been consummated on January 1, 2016.

All financial data in the unaudited pro forma financial statements of the Company is presented in Canadian dollars and has been prepared using accounting policies in accordance with International Financial Reporting Standards (“**IFRS**”). The unaudited pro forma financial statements of the Company have been derived by the application of pro forma adjustments to the historical financial statements of Trisura Group, Trisura International Holdco and TG Holdco to give effect to the Transactions. The historical financial information has been adjusted in the unaudited pro forma financial statements of the Company to give effect to pro forma adjustments that are directly attributable to the Transactions.

The unaudited pro forma financial statements of the Company should be read in conjunction with “Consolidated Capitalization”, “Selected Historical Financial Information”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura Guarantee”, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Trisura International” and the financial statements included as part of this prospectus. The unaudited pro forma financial statements of the Company have been prepared for illustrative purposes only and are not necessarily indicative of the financial position or results of operations had the Transactions, for which we are giving pro forma effect, actually occurred on the dates or for the periods indicated, nor is such pro forma financial information necessarily indicative of the results to be expected for any future period as a number of factors may affect the Company’s results.

**2. PRO FORMA ADJUSTMENTS**

*a) Capitalization of Trisura Group*

As part of the Transactions, Brookfield Asset Management will capitalize the Company with \$41,100 in additional cash in exchange for the issuance of common shares of the Company. The Company intends to use this capital for its subsequent capitalization of Trisura Specialty Insurance Company, a new U.S. specialty insurance company.

*b) Acquisition of Promissory Note*

As part of the Transactions, Trisura Group will acquire Brookfield Asset Management’s interest in the note payable from TG Holdco to Brookfield Asset Management. Upon completion of the Transactions, this note payable will be eliminated upon consolidation. The interest expense impact related to this note payable is immaterial to these pro forma financial statements.

*c) Foreign Currency Translation*

The historical financial statements of Trisura International Holdco are presented in their functional currency of United States dollars. The Canadian dollar is the functional and presentation currency of the Company. Assets and liabilities of foreign operations having a functional currency other than the Canadian dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expense at average rates during the period. Gains and losses on translation are accumulated as a component of equity. The following tables provide details of the translation for the Statement of Financial Position and the Unaudited Statements of Condensed Income:

**TRISURA GROUP LTD.**  
**NOTES TO THE PRO FORMA FINANCIAL STATEMENTS (Continued)**  
**C\$ thousands, unless otherwise stated**

**2. PRO FORMA ADJUSTMENTS (Continued)**

*c) Foreign Currency Translation (continued)*

**Trisura International — Statement of Financial Position**

**As at December 31, 2016**

	<u>Trisura International</u>	<u>FX Translation</u>	<u>Trisura International</u>
	US\$		C\$
<b>ASSETS</b>			
Cash and cash equivalents . . . . .	68,971	\$23,747	92,718
Investments . . . . .	37,123	12,781	49,904
Structured insurance assets . . . . .	11,254	3,875	15,129
Accrued investment income . . . . .	246	85	331
Accounts receivable and other assets . . . . .	676	233	909
Executive share purchase plan receivable . . . . .	—	—	—
Deferred acquisition costs . . . . .	—	—	—
Premiums and other reinsurance balances receivable . . . . .	—	—	—
Reinsurer's share of: . . . . .	—	—	—
Unearned premiums . . . . .	—	—	—
Unpaid claims and loss adjustment expenses . . . . .	—	—	—
Funds held by ceding companies . . . . .	302	104	406
Intangible assets . . . . .	—	—	—
Deferred tax assets . . . . .	110	38	148
<b>TOTAL ASSETS</b> . . . . .	<u><b>\$118,682</b></u>	<u><b>\$40,863</b></u>	<u><b>\$159,545</b></u>
<b>LIABILITIES</b>			
Accounts payable, accrued and other liabilities . . . . .	\$ 8,582	\$ 2,955	\$ 11,537
Reinsurance premiums payable . . . . .	—	—	—
Unearned premiums . . . . .	—	—	—
Unearned reinsurance commissions . . . . .	—	—	—
Unpaid claims and loss adjustment provisions . . . . .	71,788	24,717	96,505
Loans payable . . . . .	—	—	—
Tax liabilities . . . . .	—	—	—
Minority interests in subsidiaries . . . . .	—	—	—
	<u>80,370</u>	<u>27,672</u>	<u>108,042</u>
<b>SHAREHOLDERS' EQUITY</b> . . . . .	<u><b>38,312</b></u>	<u><b>13,191</b></u>	<u><b>51,503</b></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> . . . . .	<u><b>\$118,682</b></u>	<u><b>\$40,863</b></u>	<u><b>\$159,545</b></u>

**TRISURA GROUP LTD.**  
**NOTES TO THE PRO FORMA FINANCIAL STATEMENTS (Continued)**  
**C\$ thousands, unless otherwise stated**

**2. PRO FORMA ADJUSTMENTS (Continued)**

*c) Foreign Currency Translation (continued)*

**Trisura International — Statement of Condensed Income**

**For the Year Ended December 31, 2016**

	<b>Trisura International</b>	<b>FX Translation</b>	<b>Trisura International</b>
	US\$		C\$
<b>Gross premiums written</b> . . . . .	124	\$ 39	163
Retrospective premium refund . . . . .	—	—	—
Reinsurance ceded . . . . .	(1)	—	(1)
<b>Net premiums written</b> . . . . .	123	39	162
Change in unearned premiums . . . . .	—	—	—
Net premiums earned . . . . .	123	39	162
Fee and interest income . . . . .	10	3	13
	<u>133</u>	<u>42</u>	<u>175</u>
Claims and claims adjustment expenses incurred . . . . .	4,268	1,381	5,649
Reinsurer's share of claims and loss adjustment expenses . . . . .	—	—	—
Commissions . . . . .	546	177	723
Premium taxes . . . . .	—	—	—
Operating expenses . . . . .	3,871	1,253	5,124
	<u>8,685</u>	<u>2,811</u>	<u>11,496</u>
<b>NET UNDERWRITING LOSS</b> . . . . .	<b>(8,552)</b>	<b>(2,769)</b>	<b>(11,321)</b>
Investment income . . . . .	7,957	2,575	10,532
Foreign exchange loss . . . . .	(399)	(129)	(528)
Interest expense . . . . .	—	—	—
Change in liabilities to participating shareholders . . . . .	—	—	—
Corporate tax expense . . . . .	(225)	(73)	(298)
<b>NET LOSS FOR THE PERIOD</b> . . . . .	<b><u>\$(1,219)</u></b>	<b><u>\$ (396)</u></b>	<b><u>\$(1,615)</u></b>

**3. MINORITY INTERESTS IN SUBSIDIARIES**

The unanimous shareholder agreement of TG Holdco (the “**Unanimous Shareholder Agreement**”) among each of the shareholders of TG Holdco includes terms with a puttable feature for the common shares of TG Holdco issued to certain members of the management team of Trisura Guarantee Insurance Company (“**TGI**”), a wholly-owned subsidiary of TG Holdco. This puttable feature results in the common shares of TG Holdco held by TGI management being classified as a financial liability in accordance with IAS 32 — Financial Instrument: Presentation. These financial liabilities are carried at fair value in the unaudited pro forma statement of financial position of the Company which represents the put value ascribed to such common shares under the Unanimous Shareholder Agreement. As at December 31, 2016, the fair value of the liability in relation to the common shares of TG Holdco held by TGI management was \$16,008 (Dec 31, 2015 — \$15,812).

**4. STOCK OPTIONS**

Upon completion of the spin-off, the Company intends to grant options to Mr. Morrison as CEO to acquire a total of 60,150 common shares of the Company. The options will vest over a five year period and expire ten years following their grant date. The exercise price of the options is expected to equal \$25.00 per unit.

**5. PRO FORMA EARNINGS PER SHARE**

The unaudited pro forma weighted average number of basic and diluted shares and basic and diluted earnings per share for the year ended December 31, 2016 assume that approximately 5,800,000 common shares of Trisura Group will be issued as part of the spin-off.

**TRISURA GROUP LTD.**  
**NOTES TO THE PRO FORMA FINANCIAL STATEMENTS (Continued)**  
**C\$ thousands, unless otherwise stated**

**5. PRO FORMA EARNINGS PER SHARE (Continued)**

An increase of 10% in the number of shares that will be issued as part of the spin-off will decrease basic and diluted earnings per share from \$0.51 to \$0.46 for the year ended December 31, 2016.

An increase of 10% in the number of shares that will be issued as part of the spin-off will decrease basic and diluted earnings per shares from \$4.30 to \$3.87 for the year ended December 31, 2015.

**Consolidated financial statements of  
6436978 Canada Limited  
As at December 31, 2016 and December 31, 2015 and for each of the  
years in the three-year period ended December 31, 2016**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
6436978 Canada Limited

We have audited the accompanying consolidated financial statements of 6436978 Canada Limited, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the years in the three-year period ended December 31, 2016, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of 6436978 Canada Limited as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2016 in accordance with International Financial Reporting Standards.



Chartered Professional Accountants  
Licensed Public Accountants  
May 12, 2017



**6436978 CANADA LIMITED**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**As at December 31**  
**(in thousands of dollars)**

	Note	2016	2015
		\$	\$
<b>Assets</b>			
Cash and cash equivalents . . . . .		29,378	18,596
Investments . . . . .	3	129,360	108,702
Accrued investment income . . . . .		533	503
Accounts receivable . . . . .	7	18,243	15,072
Prepaid expenses . . . . .		170	136
Executive share purchase plan loan receivable . . . . .	17, 18	1,542	1,875
Due from related parties . . . . .	17	10	311
Deferred acquisition costs:			
Commissions . . . . .	4	27,827	23,419
Premium taxes . . . . .		3,158	2,443
Reinsurers' share of:			
Unearned premiums . . . . .	5	22,444	18,121
Unpaid claims and loss adjustment expenses —	6		
Case reserves . . . . .		13,940	9,579
Incurred but not reported . . . . .		10,736	9,379
Property, plant and equipment . . . . .	10	1,171	843
Intangible assets . . . . .	11	870	944
Deferred tax assets . . . . .	22	474	318
		259,856	210,241
<b>Liabilities and shareholders' equity</b>			
Accounts payable and accrued liabilities . . . . .	7	9,829	8,755
Reinsurance premiums payable . . . . .		13,461	8,317
Due to related parties . . . . .	17	37	31
Notes payable . . . . .	17	530	873
Income tax payable . . . . .		3,501	1,739
Unearned premiums . . . . .	5	90,612	71,480
Unearned reinsurance commissions . . . . .	4	4,928	5,277
Unpaid claims and loss adjustment expenses —	6		
Case reserves . . . . .		35,862	21,485
Incurred but not reported . . . . .		31,603	27,990
Bank loan . . . . .	14	34,100	—
Liabilities to participating shareholders . . . . .	19	16,008	15,812
		240,471	161,759
<b>Shareholders' equity</b>			
Share capital			
Authorized:			
Unlimited common and Class A shares			
Issued:			
3,000,000 (2015 — 3,000,000) common shares . . . . .	13	3,000	3,000
Nil (2015 — 840,000) Class A non-voting common shares . . . . .	13	—	21,000
Retained earnings . . . . .		12,572	25,706
Accumulated other comprehensive income (loss) . . . . .		3,813	(1,224)
		19,385	48,482
		259,856	210,241

*See accompanying notes to the consolidated financial statements*

**6436978 CANADA LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the years ended December 31**  
**(in thousands of dollars, except per share amounts)**

	<u>Note</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
		\$	\$	\$
<b>Gross premiums written</b> . . . . .		124,802	104,142	91,143
Reinsurance premiums ceded . . . . .		(37,616)	(31,984)	(27,720)
Retrospective premiums refund . . . . .		(284)	(309)	(476)
<b>Net premiums written</b> . . . . .		86,902	71,849	62,947
Change in unearned premiums . . . . .		(14,809)	(7,564)	(7,921)
<b>Net premiums earned</b> . . . . .		72,093	64,285	55,026
Fee income . . . . .		3,352	3,149	2,353
Total underwriting revenue . . . . .		75,445	67,434	57,379
Claims and loss adjustment expenses . . . . .		35,338	24,871	15,647
Reinsurers' share of claims and loss adjustment expenses . . . . .		(12,942)	(11,694)	(5,994)
Commissions . . . . .		30,661	27,398	23,321
Reinsurance commissions . . . . .		(8,314)	(6,838)	(5,995)
Premium taxes . . . . .		3,591	3,083	2,663
Operating expenses . . . . .	17	21,480	21,207	19,910
Total claims and expenses . . . . .		69,814	58,027	49,552
<b>Net underwriting income</b> . . . . .		5,631	9,407	7,827
Net investment income . . . . .	3	1,137	2,570	3,067
Interest expense . . . . .		(481)	—	—
Change in liabilities to participating shareholders . . . . .	19	(155)	(3,540)	993
Income before income taxes . . . . .		6,132	8,437	11,887
Income tax expense				
Current . . . . .	22	(2,500)	(3,282)	(2,732)
Deferred . . . . .	22	936	346	54
		(1,564)	(2,936)	(2,678)
Net income . . . . .		4,568	5,501	9,209
Other comprehensive income (loss) . . . . .	20	5,037	(3,656)	1,027
<b>Comprehensive income</b> . . . . .		9,605	1,845	10,236
Net income attributable to common shareholders . . . . .		4,568	5,501	9,209
Weighted average number of common shares outstanding during the year (number in thousands) . . . . .		4,997	4,998	4,957
Earnings per common share — basic and diluted . . . . .		0.91	1.10	1.86

*See accompanying notes to the consolidated financial statements*

**6436978 CANADA LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the years ended December 31**  
**(in thousands of dollars)**

	Note	Common shares	Class A non-voting common shares	Retained earnings	Accumulated other comprehensive income (loss)	Total
		\$	\$	\$	\$	\$
Balance at January 1, 2016 . . . . .		3,000	21,000	25,706	(1,224)	48,482
Net income . . . . .		—	—	4,568	—	4,568
Other comprehensive income . . . . .		—	—	—	5,037	5,037
Comprehensive income . . . . .		—	—	4,568	5,037	9,605
Redemptions . . . . .	13	—	(21,000)	—	—	(21,000)
Dividends paid . . . . .	13	—	—	(17,702)	—	(17,702)
Balance at December 31, 2016 . . . . .		<u>3,000</u>	<u>—</u>	<u>12,572</u>	<u>3,813</u>	<u>19,385</u>

	Note	Common shares	Class A non-voting common shares	Retained earnings	Accumulated other comprehensive income (loss)	Total
		\$	\$	\$	\$	\$
Balance at January 1, 2015 . . . . .		3,000	23,000	21,205	2,432	49,637
Net income . . . . .		—	—	5,501	—	5,501
Other comprehensive loss . . . . .		—	—	—	(3,656)	(3,656)
Comprehensive income . . . . .		—	—	5,501	(3,656)	1,845
Redemptions . . . . .	13	—	(2,000)	—	—	(2,000)
Dividends paid . . . . .	13	—	—	(1,000)	—	(1,000)
Balance at December 31, 2015 . . . . .		<u>3,000</u>	<u>21,000</u>	<u>25,706</u>	<u>(1,224)</u>	<u>48,482</u>

	Note	Common shares	Class A non-voting common shares	Retained earnings	Accumulated other comprehensive income	Total
		\$	\$	\$	\$	\$
Balance at January 1, 2014 . . . . .		3,000	25,000	12,877	1,405	42,282
Net income . . . . .		—	—	9,209	—	9,209
Other comprehensive income . . . . .		—	—	—	1,027	1,027
Comprehensive income . . . . .		—	—	9,209	1,027	10,236
Redemptions . . . . .	13	—	(2,000)	—	—	(2,000)
Dividends paid . . . . .	13	—	—	(881)	—	(881)
Balance at December 31, 2014 . . . . .		<u>3,000</u>	<u>23,000</u>	<u>21,205</u>	<u>2,432</u>	<u>49,637</u>

*See accompanying notes to the consolidated financial statements*

**6436978 CANADA LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the years ended December 31**  
**(in thousands of dollars)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	\$	\$	\$
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Net income . . . . .	4,568	5,501	9,209
Items not involving cash:			
Depreciation of property, plant and equipment . . . . .	212	179	212
Depreciation of intangible assets . . . . .	301	306	226
Amortization of bond premiums, net of discounts . . . . .	10	82	(85)
Realized (gains) on available-for-sale investments . . . . .	(358)	(282)	(123)
Unrealized (gains) on held-for-trading investments . . . . .	(32)	—	—
Impairment loss on available-for-sale investment . . . . .	2,888	1,157	—
Recovery of deferred income taxes . . . . .	(936)	(346)	(54)
Change in fair value of liabilities to participating shareholders . . . . .	155	3,540	(993)
Change in working capital operating items:			
Accrued investment income . . . . .	595	(52)	(50)
Accounts receivable . . . . .	(3,171)	3,589	(3,658)
Prepaid expense . . . . .	(34)	37	(173)
Executive share purchase plan loan receivable . . . . .	333	770	610
Deferred acquisition costs:			
Commissions . . . . .	(4,408)	(4,239)	(4,286)
Premium taxes . . . . .	(715)	(371)	(363)
Reinsurers' share of:			
Unearned premiums . . . . .	(4,323)	(2,903)	(2,277)
Unpaid claims and loss adjustment expenses . . . . .	(5,718)	(4,288)	(4,042)
Due from related parties . . . . .	301	(311)	11
Unearned premiums . . . . .	19,132	10,468	10,199
Unpaid claims and loss adjustment expenses . . . . .	17,990	7,986	5,304
Accounts payable and accrued liabilities . . . . .	1,074	(458)	(1,340)
Income tax payable . . . . .	2,501	3,498	4,583
Due to related parties . . . . .	6	2	(5)
Reinsurance premiums payable . . . . .	5,144	(473)	3,517
Unearned reinsurance commissions . . . . .	(349)	576	773
Purchase of shares treated as liability . . . . .	689	634	523
Disposal of shares treated as liability . . . . .	(648)	(682)	(431)
Income taxes paid . . . . .	(1,776)	(3,032)	(2,254)
Interest paid . . . . .	(625)	(10)	(2)
	<u>32,806</u>	<u>20,878</u>	<u>15,031</u>
<b>Investing activities</b>			
Proceeds on disposal of investments . . . . .	12,408	18,458	26,136
Purchase of investments . . . . .	(28,720)	(30,474)	(36,596)
Purchase of capital assets . . . . .	(540)	129	(305)
Disposal of capital assets . . . . .	—	—	1
Purchase of intangible assets . . . . .	(227)	(181)	(903)
	<u>(17,079)</u>	<u>(12,068)</u>	<u>(11,667)</u>
<b>Financing activities</b>			
Dividends paid . . . . .	(17,702)	(1,000)	(881)
Shares redeemed . . . . .	(21,000)	(2,000)	(2,000)
Notes payable . . . . .	(343)	(792)	(607)
Bank loan obtained . . . . .	34,100	—	—
	<u>(4,945)</u>	<u>(3,792)</u>	<u>(3,488)</u>
Net increase (decrease) in cash and cash equivalents during the year . . . . .	10,782	5,018	(124)
Cash, beginning of year . . . . .	14,121	9,143	9,704
Cash equivalents, beginning of year . . . . .	4,475	4,435	3,998
Cash and cash equivalents, beginning of year . . . . .	18,596	13,578	13,702
Cash, end of year . . . . .	20,691	14,121	9,143
Cash equivalents, end of year . . . . .	8,687	4,475	4,435
<b>Cash and cash equivalents, end of year</b>	<u>29,378</u>	<u>18,596</u>	<u>13,578</u>

*See accompanying notes to the consolidated financial statements*

## 6436978 CANADA LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2016 and December 31, 2015 and for each of the years in  
the three-year period ended December 31, 2016  
(In thousands of dollars)

#### 1. THE COMPANY

6436978 Canada Limited (the Company) was incorporated under the Canada Business Corporations Act (the Act) on August 22, 2005 and is domiciled in Canada. The Company is the sole shareholder of Trisura Guarantee Insurance Company (Trisura Guarantee), which is incorporated under the Insurance Companies Act of Canada and is authorized to carry on business as a property and casualty insurance company in all provinces and territories of Canada. The Company's head office is located at 333 Bay Street, Suite 1610, Box 22, Toronto, Ontario, M5H 2R2. The Company's ultimate controlling parent is Brookfield Asset Management Inc. (Brookfield), a publicly traded company.

These consolidated financial statements were authorized for issue by the Board of Directors of the Company on April 3, 2017.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which were in effect as at December 31, 2016. In accordance with IFRS, presentation of assets and liabilities on the consolidated statements of financial position is in order of liquidity. The Company's functional and presentation currency is Canadian dollars.

These consolidated financial statements incorporate the financial statements of the Company and Trisura Guarantee, the entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of Trisura Guarantee are included in the consolidated statements of comprehensive income. Total comprehensive income of Trisura Guarantee is attributed to the Company based on its 100% ownership.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. The preparation of consolidated financial statements in accordance with IFRS requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the years presented. Estimates are subject to uncertainty and can therefore differ significantly from actual results. Significant estimates are used by the Company in the determination of unpaid claims and loss adjustment expenses (Note 6), and provision for income taxes (Notes 2(k) and 22). Any changes in estimates are recorded in the period in which they are determined. Accordingly, actual results may differ from these and other estimates thereby impacting future financial statements. Refer to the relevant accounting policies for details on management's use of estimates.

Judgments are also used in applying the accounting policies used to prepare financial statements. Those judgments affect the carrying amount of certain assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Examples of judgments used in the preparation of the financial statements include the classification of products to determine whether these should be accounted for as insurance, investment or service contracts (Note 2(d)), the classification of investments as available-for-sale (Note 3) and in establishing provisions for unpaid claims and loss adjustment expenses (Note 6). Refer to the relevant accounting policies for details on our use of judgment.

The significant accounting policies used in preparing these financial statements, including those specified by the Office of the Superintendent of Financial Institutions Canada (OSFI) for Trisura Guarantee, are, in all material respects, in accordance with IFRS and are summarized below.

##### a) *Cash and cash equivalents*

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. The Company has classified cash and cash equivalents as Fair Value through Profit or Loss (FVTPL). FVTPL investments are carried at fair value, with changes in fair value recognized in net income.

##### b) *Investments*

Bonds, trust units and equities are categorized as available-for-sale except in limited circumstances where there is an embedded derivative as described below when they may be designated as FVTPL. Available-for-sale investments are carried at fair value, with changes in fair value recorded as unrealized gains (or losses) in other comprehensive income.

If an investment incorporates an embedded derivative that is otherwise required to be accounted for separately, the Company designates that investment as FVTPL under the fair value option and not separately account for the embedded derivative.

6436978 CANADA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in  
the three-year period ended December 31, 2016  
(In thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) *Investments (continued)*

When an unrealized loss on an available-for-sale investment results from objective evidence of impairment, the difference between the amortized cost of the investment and its fair value is recognized as a realized loss in net income and a corresponding adjustment is made to other comprehensive income. For debt securities, impairment would occur as a result of a loss event, and for equity securities impairment would occur as a result of a significant or prolonged reduction in fair value. In determining whether there is objective evidence of impairment, the factors considered are, primarily, the term of the unrealized loss and the amount of the unrealized loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed, with the amount of the reversal recognized in net income.

Fair values of investments quoted in active markets are based on bid prices. When an available-for-sale investment is not quoted in an active market, alternative valuation techniques are used to value the investment. When a FVTPL investment is not quoted in an active market, its fair value is determined by using valuation techniques commonly used by market participants such as discounted cash flows, comparable entity analysis and asset valuations.

Purchases and sales of investments are recognized and derecognized in the accounts on their trade dates. Transaction costs related to investments classified as available-for-sale are capitalized on initial recognition and, where applicable, amortized to interest income using the effective interest method. Transaction costs related to FVTPL instruments are expensed.

c) *Other financial assets and liabilities*

The Company has classified the following financial assets as loans and receivables that continue to be carried at their amortized cost, which approximates their fair value due to their short term nature:

- i. Accrued investment income;
- ii. Accounts receivable;
- iii. Due from related party; and,
- iv. Executive share purchase plans

The Company has classified the following financial liabilities as other liabilities that continue to be carried at their amortized cost, which approximates their fair value due to their short term nature:

- i. Accounts payable and accrued liabilities;
- ii. Due to related parties and notes payable;
- iii. Reinsurance premiums payable;
- iv. Bank loan; and,
- v. Liability to participating shareholders

d) *Insurance contracts*

When significant insurance risk exists, the Company's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, Insurance Contracts. Significant insurance risk exists when the Company agrees to compensate policyholders of the contract for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. Refer to Note 8 for discussion of insurance risk. In the absence of significant insurance risk, the contract is classified as an investment contract or service contract. All contracts issued by the Company have been determined to be insurance contracts..

e) *Premiums*

Premiums are earned over the terms of the related policies or bonds, generally on a pro rata basis. There are some instances where premium is earned over the term of the policy in accordance with the risk profile of those policies with more premium being earned during when the risk exposure from the policy is greatest. Unearned premiums represent the unexpired portion of premiums written. Gross premiums written are presented gross of retrospective premium refunds to insureds. Retrospective premium refunds are accounted for on an accrual basis.

6436978 CANADA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016  
(In thousands of dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) *Premiums (continued)*

In its normal course of business, the Company enters into fronting arrangements with various third parties, whereby the Company assumes the insurance risk but then cedes all of it to insurers that are not licensed in Canada, and security arrangements are established to offset the Company's risk exposure (refer to Note 8). Premiums related to those fronting arrangements are recognized over the term of the related policies on a pro rata basis.

f) *Fees*

The Company periodically charges fees to insureds, which are recorded as revenue and separately disclosed on the consolidated statements of comprehensive income. Fees are recognized in the period in which they are charged.

g) *Acquisition costs*

Acquisition costs comprise commissions paid to insurance brokers and premium taxes. These costs are deferred to the extent they are recoverable from unearned premiums and are amortized on the same basis as the related premiums are earned. If unearned premiums are not sufficient to pay expected claims and expenses, including the deferred acquisition costs, after taking into consideration anticipated investment income, the resulting premium deficiency is recognized in the current period by first reducing, to a corresponding extent, the deferred amount of the acquisition costs. Any residual amount is recorded in the accounts as a provision for premium deficiency.

h) *Claims and loss adjustment expenses*

Claims and loss adjustment expenses are first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. Provisions are made to account for the future development of these claims and expenses as well as claims incurred but not yet reported to the Company. In addition, further provisions are made with respect to unpaid claims to take into account the time value of money using discount rates based on projected investment income from the assets supporting this liability as well as offsets for anticipated indemnification recoveries.

The process of determining the provisions for claims and loss adjustment expenses necessarily involves risks that the actual results will deviate from the estimates made. These risks vary in proportion to the length of the estimation period and the volatility of the components comprising the provisions. To recognize the inherent uncertainty of the estimates, and to allow for a possible deterioration in experience, explicit actuarial margins are included for adverse deviation in the assumptions used for claims development, investment return rates and recoverability of reinsurance balances.

All provisions are reviewed, at least annually, and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as claims incurred in the current period.

i) *Reinsurance*

The reinsurers' share of unearned premiums and their estimated share of unpaid claims and loss adjustment expenses are presented as assets on a basis consistent with the methods used to determine the unearned premium liability and the unpaid claims liability, respectively.

Reinsurance commissions are deferred and earned using principles consistent with the method used for deferring and amortizing acquisition costs.

j) *Property, plant and equipment*

Property, plant and equipment are carried at cost less accumulated amortization. Amortization is provided over the estimated useful lives of these assets using the following rates and methods:

Computers and office equipment . . . . .	40%, declining balance
Policy management system . . . . .	40%, declining balance
Furniture and fixtures . . . . .	25%, declining balance
Leasehold improvements . . . . .	5 to 15 years, straight-line over the term of the lease

6436978 CANADA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) *Income taxes*

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be settled or realized, where those tax rates and laws have been substantively enacted. Deferred tax assets are only recognized to the extent that it is probable that they will be realized. Estimates are used to determine the value of the deferred tax asset balance based on the assumption that the company will generate taxable income in future years. Estimates are used to determine the taxes payable balance based on applicable tax legislation. For items in other comprehensive income, the related tax is also presented in other comprehensive income.

l) *Intangible assets*

Intangible assets are carried at cost less accumulated amortization. Amortization is provided over the estimated useful lives of those assets. A 40% amortization rate and the declining balance method of amortization is applied to computer software. A 20% rate and the declining balance method of amortization is applied to the customer list recorded as an intangible asset.

m) *Future accounting policy changes*

*IFRS 9 Financial Instruments (IFRS 9)*

In November 2009, the IASB issued IFRS 9 as part of its plan to replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost. In October 2010, the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities previously included in IAS 39. Another revised version of IFRS 9 was issued in July 2014 to include impairment requirements for financial assets and limited amendments by introducing a “fair value through other comprehensive income” (FCTOCI) measurement category. It also removed the mandatory effective date of January 1, 2015 and replaced it with a new effective date of January 1, 2018. The Company is assessing the impact of IFRS 9 on its consolidated financial statements.

*IFRS 15 Revenue from Contracts with Customers (IFRS 15)*

On May 28, 2014, the IASB published IFRS 15, which replaces IAS 11 *Construction Contracts* and IAS 18 *Revenues*. This new standard specifies how and when to recognize revenues according to a single five-step model, and the additional disclosure requirements. The provisions of this new standard will apply to financial statements beginning on or after January 1, 2017. On September 11, 2015, the IASB published an amendment to the standard which defers the effective date to financial statements beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the impact of IFRS 15 on its consolidated financial statements.

*IFRS 16 Leases (IFRS 16)*

In January 2016, the IASB published IFRS 16 Leases. The new standard brings most leases on balance sheets, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. The Company is assessing the impact of IFRS 16 on its consolidated financial statements.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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3. INVESTMENTS

a) *Investments by designation*

All investments were classified as available-for-sale at December 31, 2016 and 2015, with the exception of an instalment receipt and convertible debenture which was classified as FVTPL.

b) *Unrealized gains and losses*

The amortized cost and fair values of investments as at December 31, 2016, 2015 and 2014 were as follows:

<u>December 31, 2016</u>	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Fair value</u>
	\$	\$	\$	\$
Bonds				
Government . . . . .	26,795	1,187	(8)	27,974
Corporate . . . . .	56,368	538	(316)	56,590
	<u>83,163</u>	<u>1,725</u>	<u>(324)</u>	<u>84,564</u>
Income and investment trust units . . . . .	2,126	744	(68)	2,802
Common shares . . . . .	22,162	5,372	(601)	26,933
Preferred shares . . . . .	15,227	261	(623)	14,865
Convertible debenture . . . . .	167	29	—	196
	<u>122,845</u>	<u>8,131</u>	<u>(1,616)</u>	<u>129,360</u>
<u>December 31, 2015</u>	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Fair value</u>
	\$	\$	\$	\$
Bonds				
Government . . . . .	27,715	1,663	—	29,378
Corporate . . . . .	45,887	571	(216)	46,242
	<u>73,602</u>	<u>2,234</u>	<u>(216)</u>	<u>75,620</u>
Income and investment trust units . . . . .	2,813	740	(182)	3,371
Common shares . . . . .	19,083	1,999	(1,794)	19,288
Preferred shares . . . . .	13,415	16	(3,166)	10,265
Instalment receipt . . . . .	161	—	(3)	158
	<u>109,074</u>	<u>4,989</u>	<u>(5,361)</u>	<u>108,702</u>
<u>December 31, 2014</u>	<u>Amortized cost</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>	<u>Fair value</u>
	\$	\$	\$	\$
Bonds				
Government . . . . .	33,123	1,430	—	34,553
Corporate . . . . .	34,299	563	(2)	34,860
	<u>67,422</u>	<u>1,993</u>	<u>(2)</u>	<u>69,413</u>
Income and investment trust units . . . . .	2,787	777	(37)	3,527
Common shares . . . . .	16,817	2,964	(870)	18,911
Preferred shares . . . . .	10,987	156	(414)	10,729
	<u>98,013</u>	<u>5,890</u>	<u>(1,323)</u>	<u>102,580</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in  
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3. INVESTMENTS (Continued)

b) *Unrealized gains and losses (continued)*

Management has reviewed currently available information regarding those investments with a fair value less than amortized cost. During the year ended December 31, 2016, management recognized an impairment of \$2,888 (2015 — \$1,157; 2014 — Nil) on equity securities that had a significant or prolonged decline in value. Assumptions are used to estimate the value of the impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

c) *Fair value hierarchy*

Investments carried at fair value are classified in accordance with a valuation hierarchy that reflects the significance of the inputs used in determining their fair value. Under Level 1 of this hierarchy, fair value is derived from unadjusted quoted prices in active markets for identical investments. Under Level 2, fair value is derived from market inputs that are directly or indirectly observable other than unadjusted quoted prices for identical investments. Under Level 3, fair value is derived from inputs that are not based on observable market data.

For investments classified under Level 1, the Company uses bid prices quoted on the Toronto Stock Exchange (TSX). Investments classified under Level 2 are priced using over-the-counter bid prices or broker-dealer quotes. The Company did not have any Level 3 investments at December 31, 2015 and 2014. There were no transfers of investments between any levels.

The following sets out the investments classified in accordance with the fair value hierarchy:

<u>December 31, 2016</u>	<u>Total fair value</u>	<u>Level 1</u>	<u>Level 2</u>
	\$	\$	\$
Bonds:			
Government . . . . .	27,974	—	27,974
Corporate . . . . .	56,590	—	56,590
Income and investment trust units . . . . .	2,802	2,802	—
Common shares . . . . .	26,933	26,933	—
Preferred shares . . . . .	14,865	14,865	—
Convertible debenture . . . . .	196	196	—
Investments . . . . .	129,360	44,796	84,564
Cash and cash equivalents . . . . .	29,378	29,378	—
	<u>158,738</u>	<u>74,174</u>	<u>84,564</u>
<u>December 31, 2015</u>	<u>Total fair value</u>	<u>Level 1</u>	<u>Level 2</u>
	\$	\$	\$
Bonds:			
Government . . . . .	29,378	—	29,378
Corporate . . . . .	46,242	—	46,242
Income and investment trust units . . . . .	3,371	3,371	—
Common shares . . . . .	19,288	19,288	—
Preferred shares . . . . .	10,265	10,265	—
Instalment receipt . . . . .	158	158	—
Investments . . . . .	108,702	33,082	75,620
Cash and cash equivalents . . . . .	18,596	18,596	—
	<u>127,298</u>	<u>51,678</u>	<u>75,620</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in  
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3. INVESTMENTS (Continued)

d) Net investment income

The components of net investment income for the years ended December 31, 2016, 2015 and 2014 were as follows:

	December 31, 2016	December 31, 2015	December 31, 2014
	\$	\$	\$
Interest income:			
Cash and cash equivalents . . . . .	184	145	148
Available-for-sale bonds . . . . .	2,403	2,089	2,096
Interest on executive share purchase plan . . . . .	72	89	125
Interest on notes payable . . . . .	(24)	(42)	(80)
	<u>2,635</u>	<u>2,281</u>	<u>2,289</u>
Business and dividend income:			
Available-for-sale income and investment trust units . . . . .	3	299	53
Available-for-sale common shares . . . . .	739	731	499
Available-for-sale preferred shares . . . . .	655	489	441
FVTPL convertible debenture . . . . .	32	—	—
FVTPL instalment receipt . . . . .	—	(3)	—
	<u>4,064</u>	<u>3,797</u>	<u>3,282</u>
Less: Investment expenses . . . . .	(397)	(352)	(338)
	<u>3,667</u>	<u>3,445</u>	<u>2,944</u>
Gain (loss) on disposition of investments:			
Available-for-sale income and investment trust units . . . . .	313	—	15
Available-for-sale bonds . . . . .	31	228	240
Available-for-sale common shares . . . . .	14	60	(132)
Available-for-sale preferred shares . . . . .	—	(6)	—
	<u>358</u>	<u>282</u>	<u>123</u>
Impairment:			
Preferred shares . . . . .	(2,382)	—	—
Common shares . . . . .	(506)	(1,157)	—
	<u>(2,888)</u>	<u>(1,157)</u>	<u>—</u>
Net investment income . . . . .	<u>1,137</u>	<u>2,570</u>	<u>3,067</u>

4. DEFERRED ACQUISITION COSTS

The following changes have occurred to the deferred acquisition costs for the years ended December 31, 2016 and 2015:

<u>Deferred acquisition costs</u>	December 31, 2016	December 31, 2015
	\$	\$
Opening costs, beginning of year . . . . .	25,862	21,252
Acquisition costs deferred . . . . .	36,201	32,129
Amortization of deferred costs . . . . .	(31,078)	(27,519)
Closing balance, end of year . . . . .	<u>30,985</u>	<u>25,862</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in  
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4. DEFERRED ACQUISITION COSTS (Continued)

<u>Reinsurers' share of deferred acquisition costs</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Opening costs, beginning of year . . . . .	5,277	4,701
Acquisition costs deferred . . . . .	8,478	7,305
Amortization of deferred costs . . . . .	(8,827)	(6,729)
Closing balance, end of year . . . . .	<u>4,928</u>	<u>5,277</u>

The reinsurers' share of deferred acquisition costs is referred to as unearned reinsurance commissions in the consolidated statements of financial position.

5. UNEARNED PREMIUMS

a) *Nature of unearned premiums*

Unearned premiums are calculated on a pro rata basis from the unexpired portion of the premiums written. The unearned premiums estimate is validated through standard actuarial techniques to ensure that after deducting any deferred policy acquisition costs, these premiums are sufficient to cover the estimated future costs of servicing the associated policies, expected claims, loss adjustment expenses, and taxes to be incurred. In estimating these costs, the Company uses discounting techniques to take into account the time value of money and a provision for adverse deviation is added to the discounted amount. There was no premium deficiency at December 31, 2016 and 2015.

The carrying value of unearned premiums approximates their fair value.

b) *Unearned premiums by line of business*

<u>December 31, 2016</u>	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
	\$	\$	\$
Surety . . . . .	19,212	6,208	13,004
Liability . . . . .	25,631	8,988	16,643
Boiler and machinery . . . . .	41,597	6,360	35,237
Accident and sickness . . . . .	2,146	—	2,146
Fidelity . . . . .	1,258	258	1,000
Property . . . . .	768	630	138
	<u>90,612</u>	<u>22,444</u>	<u>68,168</u>
<u>December 31, 2015</u>	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
	\$	\$	\$
Surety . . . . .	16,744	5,467	11,277
Liability . . . . .	23,048	7,804	15,244
Boiler and machinery . . . . .	29,936	4,432	25,504
Fidelity . . . . .	1,354	191	1,163
Property . . . . .	398	227	171
	<u>71,480</u>	<u>18,121</u>	<u>53,359</u>

Ceded unearned premiums are referred to as reinsurers' share of unearned premiums in the consolidated statements of financial position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016  
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5. UNEARNED PREMIUMS (Continued)

b) *Unearned premiums by line of business (continued)*

The following changes have occurred in the provision for unearned premiums during the years ended December 31, 2016 and 2015:

<u>Unearned premiums</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Unearned premiums, beginning of year . . . . .	71,480	61,012
Gross premiums written . . . . .	124,802	104,142
Gross premiums earned . . . . .	<u>(105,670)</u>	<u>(93,674)</u>
Unearned premiums, end of year . . . . .	<u>90,612</u>	<u>71,480</u>
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	\$	\$
<u>Reinsurers' share of unearned premium</u>		
Reinsurers' share of unearned premiums, beginning of year . . . . .	18,121	15,218
Ceded premiums written . . . . .	37,616	31,984
Ceded premiums earned . . . . .	<u>(33,293)</u>	<u>(29,081)</u>
Reinsurers' share of unearned premiums, end of year . . . . .	<u>22,444</u>	<u>18,121</u>

6. UNPAID CLAIMS AND LOSS ADJUSTMENT EXPENSES

a) *Nature of unpaid claims and loss adjustment expenses*

In estimating unpaid claims and loss adjustment expenses, standard actuarial techniques are used. These techniques are based on historical loss development factors and payment patterns. They require the use of assumptions such as loss and payment development factors, future rates of claims frequency and severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance policies. In addition, time can be a critical factor, since the longer the span between the incidence of a loss and the settlement of the claim, the more variable the ultimate settlement amount could be. Consequently, claims liabilities are inherently subject to material uncertainty as to the ultimate amounts required to adjust and settle claims outstanding at the balance sheet date, both reported and unreported. As at December 31, 2016, it is expected that \$21,324 (2015 — \$19,201) of unpaid claims and loss adjustment expenses will be paid out within one year, \$30,443 (2015 — \$19,806) within two to three years, \$11,584 (2015 — \$7,817) within four to five years, and \$4,114 (2015 — \$2,651) within six to ten years.

b) *Unpaid claims and loss adjustment expenses by line of business*

<u>December 31, 2016</u>	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
	\$	\$	\$
Surety . . . . .	15,305	4,333	10,972
Liability . . . . .	38,555	18,540	20,015
Fidelity . . . . .	767	23	744
Boiler and machinery . . . . .	10,888	—	10,888
Accident and sickness . . . . .	96	—	96
Property . . . . .	1,854	1,780	74
	<u>67,465</u>	<u>24,676</u>	<u>42,789</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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6. UNPAID CLAIMS AND LOSS ADJUSTMENT EXPENSES (Continued)

b) Unpaid claims and loss adjustment expenses by line of business (continued)

<u>December 31, 2015</u>	<u>Gross</u>	<u>Ceded</u>	<u>Net</u>
	\$	\$	\$
Surety . . . . .	14,492	4,305	10,187
Liability . . . . .	33,707	14,633	19,074
Fidelity . . . . .	703	20	683
Boiler and machinery . . . . .	474	—	474
Property . . . . .	99	—	99
	<u>49,475</u>	<u>18,958</u>	<u>30,517</u>

Ceded balances are referred to as reinsurers' share of unpaid claims and loss adjustment expenses in the consolidated statements of financial position.

As at December 31, 2016, unpaid claims and loss adjustment expenses were reduced, on a net basis, by \$1,584 (2015 — \$1,032) to take into account the time value of money using a rate of 1.92% (2015 — 1.97%) on expected claims settlement patterns in accordance with accepted actuarial practice, as prescribed by the Canadian Institute of Actuaries. As at December 31, 2016, the provisions for adverse deviation (PFAD) increased unpaid claims and loss adjustment expenses, on a net basis, by \$4,801 (2015 — \$3,409). At December 31, 2016, gross and net unpaid claims and loss adjustment expenses included provisions for known claims of \$35,862 and \$13,940, respectively (2015 — \$21,485 and \$11,906, respectively).

The following changes have occurred to the provision for unpaid claims for the years ended December 31:

<u>Gross claim reserves</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Unpaid claims, beginning of year . . . . .	49,475	41,489
Change in undiscounted estimates for losses of prior years . . . . .	(7,723)	(7,725)
Change in discount rate . . . . .	(745)	(77)
Change in PFAD . . . . .	1,826	767
Claims occurring in current year (including paid) . . . . .	40,249	29,316
Paid on claims occurring during:		
Current year . . . . .	(8,896)	(9,393)
Prior years . . . . .	(6,721)	(4,902)
Unpaid claims, end of year . . . . .	<u>67,465</u>	<u>49,475</u>
<u>Reinsurers' share of claim reserves</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	\$	\$
Unpaid claims, beginning of year . . . . .	18,958	14,670
Change in undiscounted estimates for losses of prior years . . . . .	(800)	(209)
Change in discount rate . . . . .	(194)	(88)
Change in PFAD . . . . .	434	307
Claims occurring in current year (including paid) . . . . .	11,871	10,319
Paid on claims occurring during:		
Current year . . . . .	(2,560)	(2,497)
Prior years . . . . .	(3,033)	(3,544)
Unpaid claims, end of year . . . . .	<u>24,676</u>	<u>18,958</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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**7. ACCOUNTS RECEIVABLE AND PAYABLE**

As at December 31, 2016, accounts receivable consists of \$17,873 (2015 — \$14,736) of receivables due from brokers and insureds for insurance products purchased, \$355 (2015 — \$316) of interest receivable from shareholders, as well as \$15 (2015 — \$20) due from other sources.

As at December 31, 2016, of the total outstanding balance of accounts receivable, an amount of \$15,988 (2015 — \$9,824) is expected to be received within a year, and of the total outstanding balance of accounts payable, an amount of \$5,545 (2015 — \$6,817) is expected to be paid within a year.

**8. RISK MANAGEMENT**

As a provider of insurance products, effective risk management is critical to the Company's ability to protect the interests of its stakeholders. Significant risks include those associated with losses from insurance contracts as well as risks associated with the financial instruments that the Company holds. The Company has policies relating to the identification, measurement, monitoring, mitigating and controlling of risks associated with both insurance contracts and financial instruments. The significant risk related to insurance contracts is insurance risk, which can be influenced by pricing risk, concentration risk and reserving risk. The significant risks related to financial instruments are credit risk, liquidity risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk).

The following sections describe how the Company manages both its insurance risk as well as risks associated with financial instruments.

*a) Insurance risk*

Insurance risk is the risk that the total cost of claims and acquisition expenses related to an insurance contract will exceed premiums received from that contract. This could occur because either the frequency or severity of claims is greater than expected. The Company's objective for managing the risks arising from insurance contracts is to minimize those risks to the extent possible while continuing to grow and to achieve profitable underwriting results within its identified product lines. To achieve that objective, the Company follows underwriting guidelines set by senior management when issuing bonds and policies. In addition to that, careful oversight is applied to all aspects of the underwriting process to ensure that guidelines are followed. Some additional factors that impact insurance risk include pricing risk, concentration risk and reserving risk, which are described below:

*i) Pricing risk*

Pricing risk is the risk that an insurance product has been priced with assumptions about claims activity that are different from the actual claims experience of that product line. The Company's pricing is designed to ensure an appropriate profit margin, while taking into account factors such as claims frequency and severity, and other risk factors associated with the capital required to support the product line. The Company reviews these factors periodically to ensure that they reflect the current market conditions. The Company mitigates the impact of pricing risk by the use of pricing guidelines used by all underwriters, and through experienced underwriting staff who apply their knowledge of the product line when making pricing decisions.

*ii) Concentration of insurance risk*

Concentration risk is the risk that insurance products are concentrated within a particular geographic area, particular class of business, or particular insured, increasing the exposure of the Company to a single event. Concentration of risk could arise as a result of a single bondholder having multiple bonds outstanding, or as a result of a large number of insurance contracts issued for a similar class of business. Management determines concentrations through periodic review and analysis of the company's portfolio of insurance risks.

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8. RISK MANAGEMENT (Continued)

a) Insurance risk (continued)

ii) Concentration of insurance risk (continued)

To mitigate the impact of concentration of risk, the Company looks for high concentrations of risk and makes adjustments as needed where exposure to a single event is greater than the Company's tolerance level. In addition, the Company minimizes the impact of such risk by maintaining a diversified portfolio of risks spread across different geographic regions and different product lines. Below is a table showing the Company's concentration of risk by geographic area and product line.

	December 31, 2016		December 31, 2015		December 31, 2014	
	Canada	US	Canada	US	Canada	US
	\$	\$	\$	\$	\$	\$
Property . . . . .	6,175	—	732	—	290	—
Boiler and machinery . . . . .	32,098	—	26,918	—	19,389	—
Accident and sickness . . . . .	2,548	—	—	—	—	—
Fidelity . . . . .	2,483	—	2,609	—	2,539	—
Liability . . . . .	37,747	—	34,022	—	30,557	—
Surety . . . . .	43,247	504	39,622	239	38,149	219
Gross premiums written . . . . .	124,298	504	103,903	239	90,924	219
Retrospective premium refund (boiler and machinery) . . . . .	(284)	—	(309)	—	(476)	—
Reinsurance . . . . .	(37,442)	(174)	(31,860)	(124)	(27,635)	(85)
Net premiums written . . . . .	<u>86,572</u>	<u>330</u>	<u>71,734</u>	<u>115</u>	<u>62,813</u>	<u>134</u>

iii) Reserving risk

Reserving risk is the risk that losses resulting from underwriting activities will be greater than initially anticipated. The Company sets reserves for each line of business monthly and those reserves are reviewed on a semi-annual basis by the Company's external actuary. At that time the Company compares actual to expected claims development and makes adjustments to reserves as needed. The following tables summarize the loss development of the Company from inception to the current year. Gross figures reflect loss development before the effect of reinsurance, and net figures reflect the Company's loss development including the effect of reinsurance.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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8. RISK MANAGEMENT (Continued)

a) Insurance risk (continued)

iii) Reserving risk (continued)

Gross figures

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Gross cumulative claim payments at end of accident year . . . . .	(74)	(1,202)	(2,117)	(3,876)	(1,995)	(1,123)	(2,291)	(4,230)	(9,393)	(8,896)	
One year later . . . . .	(1,962)	(1,449)	(2,488)	(6,830)	(3,884)	(2,976)	(5,930)	(10,496)	(11,675)		
Two years later . . . . .	(2,614)	(1,711)	(2,857)	(7,611)	(6,416)	(3,967)	(5,409)	(12,744)			
Three years later . . . . .	(2,946)	(1,765)	(3,005)	(7,951)	(7,278)	(4,352)	(6,815)				
Four years later . . . . .	(2,959)	(1,701)	(3,193)	(8,516)	(6,118)	(4,742)					
Five years later . . . . .	(2,960)	(1,807)	(3,198)	(8,393)	(6,230)						
Six years later . . . . .	(2,968)	(1,826)	(3,232)	(8,666)							
Seven years later . . . . .	(2,968)	(1,846)	(3,234)								
Eight years later . . . . .	(2,969)	(1,847)									
Nine years later . . . . .	(2,976)										
Estimate of gross ultimate claims at end of accident year . . . . .	5,975	6,573	9,571	12,608	11,741	12,187	20,896	22,377	29,316	40,249	
One year later . . . . .	5,439	4,952	5,788	10,688	12,935	9,615	17,155	21,878	24,413		
Two years later . . . . .	4,475	2,485	4,438	10,822	12,322	8,078	13,608	20,660			
Three years later . . . . .	3,351	2,161	3,741	10,261	12,006	7,178	13,062				
Four years later . . . . .	3,180	2,059	3,667	9,286	9,638	6,801					
Five years later . . . . .	2,992	1,848	3,311	8,881	8,979						
Six years later . . . . .	2,992	1,836	3,280	8,871							
Seven years later . . . . .	2,991	1,861	3,276								
Eight years later . . . . .	2,991	1,855									
Nine years later . . . . .	2,991										
Estimate of gross ultimate claims . . . . .	2,991	1,855	3,276	8,871	8,979	6,801	13,062	20,660	24,413	40,249	131,157
Cumulative claim payments . . . . .	(2,976)	(1,847)	(3,234)	(8,666)	(6,230)	(4,742)	(6,815)	(12,744)	(11,675)	(8,896)	(67,825)
	15	8	42	205	2,749	2,059	6,247	7,916	12,738	31,353	63,332
Effect of discounting . . . . .	—	—	(1)	(6)	(47)	(49)	(227)	(287)	(493)	(1,370)	(2,480)
Effect of PFAD . . . . .	2	1	5	26	243	262	685	839	1,343	3,207	6,613
Present value with PFAD . . . . .	17	9	46	225	2,945	2,272	6,705	8,468	13,588	33,190	67,465

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016  
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8. RISK MANAGEMENT (Continued)

a) Insurance risk (continued)

iii) Reserving risk (continued)

Net figures

Accident year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Net cumulative claim payments at end of accident year . . . . .	(54)	(1,074)	(1,860)	(2,628)	(1,667)	(1,056)	(1,669)	(3,252)	(6,896)	(6,336)	
One year later . . . . .	(1,456)	(1,265)	(2,228)	(4,403)	(3,317)	(2,903)	(3,691)	(5,395)	(8,408)		
Two years later . . . . .	(1,857)	(1,424)	(2,611)	(5,005)	(5,005)	(3,850)	(2,989)	(6,522)			
Three years later . . . . .	(2,065)	(1,459)	(2,757)	(5,264)	(5,638)	(4,268)	(3,408)				
Four years later . . . . .	(2,073)	(1,428)	(2,952)	(5,729)	(5,111)	(4,578)					
Five years later . . . . .	(2,074)	(1,525)	(2,957)	(5,701)	(5,259)						
Six years later . . . . .	(2,082)	(1,537)	(2,998)	(5,865)							
Seven years later . . . . .	(2,082)	(1,549)	(2,999)								
Eight years later . . . . .	(2,083)	(1,550)									
Nine years later . . . . .	(2,089)										
Estimate of net ultimate claims at end of accident year . . . . .	4,082	4,739	7,367	9,265	10,003	10,463	12,349	14,002	18,997	28,378	
One year later . . . . .	3,745	3,589	5,093	7,498	10,211	8,872	9,953	12,363	15,878		
Two years later . . . . .	3,094	2,097	4,060	7,698	9,683	7,402	6,651	10,310			
Three years later . . . . .	2,335	1,812	3,418	7,197	9,253	6,845	5,648				
Four years later . . . . .	2,217	1,743	3,384	6,323	7,564	6,568					
Five years later . . . . .	2,104	1,562	3,069	6,004	7,053						
Six years later . . . . .	2,104	1,544	3,044	6,052							
Seven years later . . . . .	2,103	1,559	3,040								
Eight years later . . . . .	2,103	1,555									
Nine years later . . . . .	2,103										
Estimate of net ultimate claims . . . . .	2,103	1,555	3,040	6,052	7,053	6,568	5,648	10,310	15,878	28,378	86,585
Cumulative claim payments . . . . .	(2,089)	(1,550)	(2,999)	(5,865)	(5,259)	(4,578)	(3,408)	(6,522)	(8,408)	(6,336)	(47,014)
	14	5	41	187	1,794	1,990	2,240	3,788	7,470	22,042	39,571
Effect of discounting . . . . .	—	1	(1)	(6)	(32)	(48)	(69)	(129)	(283)	(1,016)	(1,583)
Effect of PFAD . . . . .	1	1	6	24	177	255	357	501	916	2,563	4,801
Present value with PFAD . . . . .	15	7	46	205	1,939	2,197	2,528	4,160	8,103	23,589	42,789

iv) Sensitivity to insurance risk

The insurance risks associated with the lines of business underwritten by the Company are subject to a number of variables. Those risk variables are sensitive to various assumptions which can impact the estimation of claims liabilities. The relevant risk variables associated with the estimation of claims liabilities that are subject to assumptions include the estimated loss ratio as well as the estimated claims settlement costs. Below is an analysis showing the impact of a 5% increase in the loss ratio and a 5% increase in claims settlement costs on net income before tax and on shareholders' equity. Such variances in the estimation were considered reasonably possible during the years ended December 31, 2016, 2015 and 2014. The impacts described in the table below are independent of one another. A 5% decrease to the loss ratio and a 5% decrease in claims settlement costs would have the opposite effect on net income and shareholders' equity.

Sensitivity Factor	December 31, 2016		December 31, 2015		December 31, 2014	
	Impact on net income before income tax	Impact on shareholders' equity	Impact on net income before income tax	Impact on shareholders' equity	Impact on net income before income tax	Impact on shareholders' equity
Increase of 5% to loss ratio . . . . .	\$(3,605)	\$(2,649)	\$(3,214)	\$(2,362)	\$(2,751)	\$(2,026)
Increase of 5% to claims settlement costs . . . . .	\$(2,139)	\$(1,572)	\$(1,526)	\$(1,121)	\$(1,284)	\$(945)

**6436978 CANADA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of the years in  
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**8. RISK MANAGEMENT (Continued)**

*b) Credit risk*

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk arises mainly from investments in bonds and short-term securities and balances receivable from insurance brokers and reinsurers.

The Company has an investment policy in place that requires bonds to be Canadian, to have a minimum DBRS (or equivalent bond rating service) credit rating of BBB-, specifies that those representing no more than 35% of the fair value of the investment portfolio may have a credit rating of less than single A, limits exposure to any entity or group of related entities (other than governments, meaning Canada, the provinces, municipalities and crown corporations, their subsidiaries and guarantees (each a 'government')) to 5% of the fair value of the investment portfolio, and provides that the overall portfolio is to be well-diversified by industry. Management monitors credit quality on an on-going basis and reviews the investment portfolio regularly with the Company's board of directors.

The Company's investment policy provides that short-term investments must have a DBRS (or equivalent) rating of R-1(low) or higher and exposure to any entity or group of related entities (other than a government) is limited to 5% of the fair value of the investment portfolio.

The Company uses insurance brokers as intermediaries for the distribution of its product offerings and is therefore subject to the risk that these brokers fail to remit the premiums they have collected on its behalf. The Company only deals with licensed brokers with which it has entered into a contract that details, among other things, the broker's responsibilities and payment obligations. The Company completes a documented due diligence process before entering into a contract with an insurance broker which includes confirmation of licensing with applicable provincial regulators.

Each province has laws in place deeming funds received by brokers from insureds to be trust funds and requiring brokers to hold minimally stipulated amounts of both errors and omissions and employee dishonesty insurance, and the provincial regulators have monitoring procedures in place to ensure compliance. In addition to other requirements, such compliance is a condition of the broker's continued licensing. The Company policy is to annually confirm that all contracted brokers remain licensed in good standing with the applicable regulators. Further, the Company monitors accounts receivable from each broker and follows-up all past due amounts to ensure satisfactory collection arrangements are in place. At December 31, 2016, the largest amount receivable from an insurance broker totaled \$1,456 (2015 — \$1,191; 2014 — \$860), of which Nil (2015 — \$107; 2014 — Nil) was past due.

The Company is ultimately at risk on the limits of coverage provided under its product offerings, regardless of whether it has ceded a portion of this exposure to reinsurers. If a reinsurer is unable to satisfy its obligations, the Company does not have the right to correspondingly reduce its claims payment obligations. The Company's general practice is to use only licensed reinsurers that have a minimum A.M. Best credit rating of A-, and management monitors these ratings on a regular basis. When the Company does use an unlicensed reinsurer, it is required to establish a custodial account secured under a reinsurance security agreement, in the form prescribed by OSFI, and/or post a letter of credit of an amount equal to at least 115% of the unearned premium, unpaid claims and loss adjustment expenses on business ceded to it. This notwithstanding, the risk of default still exists as a consequence of a catastrophic loss or other form of financial misadventure. For licensed reinsurers, the Company therefore restricts the participation of individual reinsurers to no more than 30% of the total amount of risk ceded, and utilizes both North American and European reinsurers. These participations and limits are reviewed and approved by the Company's board of directors on an annual basis.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016  
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8. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

i) Maximum exposure to credit risk

The following table sets out the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses (of which there were none in 2016 and 2015).

	December 31, 2016	December 31, 2015
	\$	\$
Cash and cash equivalents . . . . .	29,378	18,596
Bonds		
Government . . . . .	27,974	29,378
Corporate . . . . .	56,590	46,242
Accrued investment income . . . . .	533	503
Accounts receivable . . . . .	18,243	15,072
	<u>132,718</u>	<u>109,791</u>

As at December 31, 2016 and 2015, there were no significant impairments. Of accounts receivable, \$1,429 (2015 — \$1,023) was past due but not considered to be impaired. All other balances were current.

There is considered to be no credit risk associated with the Executive Share Purchase Plan.

ii) Concentration of credit risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar risk characteristics in that they operate in the same or similar industries. The following table provides details of the fair value of bonds by industry sector:

	December 31, 2016	December 31, 2015
	\$	\$
Governments . . . . .	27,974	29,378
Financial . . . . .	29,153	25,408
Industrials . . . . .	8,681	3,262
Infrastructure . . . . .	5,942	1,024
Real estate . . . . .	5,654	5,652
Consumer discretionary . . . . .	3,117	3,064
Automotive . . . . .	2,026	3,249
Retail . . . . .	1,012	1,020
Power and pipelines . . . . .	1,005	1,016
Telecom . . . . .	—	2,547
	<u>84,564</u>	<u>75,620</u>

6436978 CANADA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in  
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8. RISK MANAGEMENT (Continued)

b) Credit risk (continued)

iii) Asset quality

The following table summarizes the credit ratings for bonds and cash equivalents:

	December 31, 2016	December 31, 2015
	\$	\$
Bonds		
AAA . . . . .	4,859	4,978
AA . . . . .	15,361	15,516
A . . . . .	34,542	24,933
BBB . . . . .	29,802	30,193
	<u>84,564</u>	<u>75,620</u>
Cash equivalents		
R-1 (low) . . . . .	8,687	4,476
	<u>8,687</u>	<u>4,476</u>
	<u>93,251</u>	<u>80,096</u>

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Generally, the Company's financial liabilities are settled by delivering cash and it is able to rely on the cash flow generated from its operations to satisfy its liquidity requirements, which are primarily operating expenses and claims and claims adjustment payments.

By their nature, the timing and quantum of claims and claims adjustment payments are subject to significant uncertainty and must be estimated actuarially as set out in Note 6. Although the Company has reinsurance treaties in place under which a portion of the claims payments may be recovered, including by way of set off against premiums payable to the reinsurers, such recoveries usually follow the making of payments, with delays of up to five months. Hence the Company must have access to sufficient liquid resources to fund gross amounts payable when required.

To manage its liquidity requirements, the Company maintains a minimum balance of cash and cash equivalents and, through its investment policy, has established minimum criteria for the quality of each class of investment held. The criteria for bonds and short-term investments are set out under Note 8(b), above. In addition, the average duration of bonds and the maximum maturity limit have been set to enhance their overall liquidity. All common shares, preferred shares and income and investment trusts must be listed on the TSX, and limitations are placed on exposure to any one issuer. Further, in accordance with the investment policy and OSFI's requirements for Trisura Guarantee, exposure of the total investment portfolio to any one corporate group is limited to 5% of total assets.

The maturity profile of bonds held at December 31, 2016 and 2015 was as follows:

December 31, 2016	One year or less	One to five years	Over five years	Total
	\$	\$	\$	\$
Bonds				
Government . . . . .	2,014	20,076	5,884	27,974
Corporate . . . . .	10,819	35,941	9,830	56,590
Total . . . . .	<u>12,833</u>	<u>56,017</u>	<u>15,714</u>	<u>84,564</u>
Percent of total . . . . .	<u>15.2%</u>	<u>66.2%</u>	<u>18.6%</u>	<u>100.0%</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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8. RISK MANAGEMENT (Continued)

c) Liquidity risk (continued)

<u>December 31, 2015</u>	<u>One year or less</u>	<u>One to five years</u>	<u>Over five years</u>	<u>Total</u>
	\$	\$	\$	\$
Bonds				
Government . . . . .	1,024	21,281	7,073	29,378
Corporate . . . . .	3,839	31,060	11,343	46,242
Total . . . . .	<u>4,863</u>	<u>52,341</u>	<u>18,416</u>	<u>75,620</u>
Percent of total . . . . .	<u>6.4%</u>	<u>69.2%</u>	<u>24.4%</u>	<u>100.0%</u>

As at December 31, 2016 and 2015 accounts payable and accrued liabilities, amounts due to related parties and reinsurance premiums payable were all to be paid within three months and no amounts are in arrears.

Based on the Company's current financial performance, management believes cash flow generated from the Company's operations will continue to provide sufficient liquidity to satisfy the Company's cash outflow obligations as they come due.

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risks such as equity risk.

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Most of the Company's investments are located in Canada and denominated in Canadian dollars, with the exception of limited holdings of US equities which are less than 3% of the Company's investment portfolio. The Company's underwriting operations are focused on risks and clients located in Canada. The Company monitors any foreign exchange risk associated with its investments closely and ensures that the potential risk does not become material. As at December 31, 2016 and 2015, the Company did not have any significant exposure to currency risk.

ii) Interest rate risk

Interest rate risk is the potential for financial loss resulting from changes in interest rates. Bonds and preferred shares are subject to interest rate risk although, in the case of bonds, to the extent they are held to maturity, the risk is limited to the reinvestment yield being different from the original yield to maturity. With respect to the fair value of bonds and preferred shares, it will change inversely with changes in market rates of interest, with greater impact to bonds with higher durations. As at December 31, 2016, if market rates had increased or decreased by 50 basis points, the fair value of bonds and preferred shares would have decreased or increased by \$1,781 or \$1,469, respectively (2015 — \$1,197 and \$1,847, respectively). Correspondingly, for every 100 basis point change in the interest rate, net income will change by approximately \$607 (2015 — \$541; 2014 — \$504). The methodology used to calculate the change is based on estimated weighted average maturity of the cash flows, net of tax.

As noted under liquidity risk, the Company's investment policy has set the average duration of bonds held and the maximum maturity limit at limits intended to enhance their overall liquidity. This control over duration reduces the impact of interest rate risk. The average life of preferred shares will not exceed 6 years, with the maximum term being 10 years. "Fixed reset" preferred shares may be held as long as the initial reset period for any issue is no greater than 7 years.

As at December 31, 2016, the Company held preferred shares with a fair value of \$14,865 (2015 — \$10,265), which were comprised of five-year fixed reset preferred shares that were issued in 2011 and thereafter.

The effective overall interest rate for bonds based on their fair value as at December 31, 2016 was 2.13% (2015 — 2.24%). The effective overall dividend rate for preferred shares based on their fair value as at December 31, 2016 was 5.03% (2015 — 5.49%).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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8. RISK MANAGEMENT (Continued)

d) Market risk (continued)

iii) Other price risk

Equity risk is the major component of other price risk. Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

As at December 31, 2016, the Company estimates that a 5% increase in equity prices will increase the portfolio fair value by \$1,399 (2015 — \$1,127) while a 5% decrease in equity prices will decrease the portfolio fair value by the same amount. A 5% increase in the portfolio fair value will increase comprehensive income by \$1,025 (2015 — \$828; 2014 — \$826) while a 5% decrease will result in a decrease of the same amount. The methodology used to calculate the latter change is based on 5% of the fair value of the equities, net of tax, at the balance sheet dates.

As noted above, the Company has guidelines in place that are intended to provide for prudent investment in equity markets. To mitigate the impact of equity risk, as at December 31, 2016 and 2015, the Company's investment policy stated that the maximum amount of equities that may be held is the lesser of 30% of the total fair value of the investment portfolio and 45% of shareholders' equity.

9. REINSURANCE

In the ordinary course of business, the Company uses reinsurance to reduce its exposure to any one claim under the policies it issues. A large portion of this reinsurance is effected under reinsurance agreements known as treaties. In some instances, it is negotiated on a facultative (one-off) basis for individual policies, generally when the exposures under these policies are not sufficiently mitigated by the treaty reinsurance. Under these agreements, as at December 31, 2016 and 2015, the Company's exposure to any one claim was limited to \$5,000 subject to no maximum aggregate deductible for the year.

Reinsurance does not relieve the Company of its obligations to policyholders. A contingent liability exists with respect to reinsurance ceded which would become a liability of the Company in the event that any reinsurer fails to honour its obligations. For this reason, the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to losses from reinsurer insolvencies. As stated in Note 8(b), all licensed reinsurers are required to have a minimum A.M. Best credit rating of A- at the inception of each treaty and when facultative reinsurance is requested and unlicensed reinsurers must post a minimum level of collateral. Provisions are incorporated in the treaties to protect the Company in the event a licensed reinsurer's credit rating does deteriorate during the term of the treaty.

As at December 31, 2016, the Company was dealing with ten reinsurers not licensed in Canada (2015 — seven). Their share of unearned premium and unpaid claims and loss adjustment expenses amounted to \$29,888 (2015 — \$22,458).

Management has determined that a provision is not required for potentially uncollectible reinsurance as at December 31, 2016 and 2015.

10. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of the following as at December 31, 2016 and 2015:

<u>December 31, 2016</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Carrying amount</u>
	\$	\$	\$
Furniture and fixtures . . . . .	921	(659)	262
Computers and equipment . . . . .	269	(192)	77
Leasehold improvements . . . . .	1,196	(413)	783
Office equipment . . . . .	270	(231)	39
Policy management system — Hardware component . . . . .	91	(81)	10
	<u>2,747</u>	<u>(1,576)</u>	<u>1,171</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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10. PROPERTY, PLANT AND EQUIPMENT (Continued)

<u>December 31, 2015</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Carrying amount</u>
	\$	\$	\$
Furniture and fixtures . . . . .	769	(589)	180
Computers and equipment . . . . .	215	(162)	53
Leasehold improvements . . . . .	892	(324)	568
Office equipment . . . . .	239	(213)	26
Policy management system — Hardware component . . . . .	90	(74)	16
	<u>2,205</u>	<u>(1,362)</u>	<u>843</u>

The following represents details in the movement of the Company's property, plant and equipment carrying values by class for the years ended December 31, 2016 and 2015:

<u>December 31, 2016</u>	<u>Opening</u>	<u>Additions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Closing</u>
	\$	\$	\$	\$	\$
Furniture and fixtures . . . . .	180	152	—	(70)	262
Computers . . . . .	53	54	—	(30)	77
Leaseholds improvements . . . . .	568	304	—	(89)	783
Office equipment . . . . .	26	30	—	(17)	39
Policy management system — Hardware component . . . . .	16	—	—	(6)	10
Total . . . . .	<u>843</u>	<u>540</u>	<u>—</u>	<u>(212)</u>	<u>1,171</u>

<u>December 31, 2015</u>	<u>Opening</u>	<u>Additions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Closing</u>
	\$	\$	\$	\$	\$
Furniture and fixtures . . . . .	255	(16)	—	(59)	180
Computers . . . . .	63	20	—	(30)	53
Leaseholds improvements . . . . .	764	(134)	—	(62)	568
Office equipment . . . . .	42	1	—	(17)	26
Policy management system — Hardware component . . . . .	27	—	—	(11)	16
Total . . . . .	<u>1,151</u>	<u>(129)</u>	<u>—</u>	<u>(179)</u>	<u>843</u>

During the year ended December 31, 2015, the negative additions to leasehold improvements and furniture and fixtures are related to reimbursements from a vendor of costs incurred.

11. INTANGIBLE ASSETS

Intangible assets comprise the software components of the Company's policy management system, document management system and online portal. Amortization of the cost of the policy management system and the online portal commenced in 2011 as both were implemented during the year. They are being amortized at a rate of 40%, using the declining balance method.

Intangible assets also include the acquisition of a customer list for \$800, purchased in 2014 from another insurance company. The price of the customer list was contingent on revenue being generated from the list over the two years ended October 2016, subject to a fixed price of \$600. The \$800 of consideration paid includes the \$600 fixed price plus \$200 of contingent consideration. In October 2016, the final price of the customer list was calculated by management and determined to be \$765. Thereafter, in November 2016, a portion of the contingent consideration was refunded to the Company and the amount of \$35 was recorded in income. The original consideration paid of \$800 will continue to be amortized using the 20% declining balance method.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016  
(In thousands of dollars)

11. INTANGIBLE ASSETS (Continued)

The following represents details in the movement of the carrying values of the Company's intangible assets for the years ended December 31, 2016 and 2015:

<u>December 31, 2016</u>	<u>Opening</u>	<u>Additions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Closing</u>
	\$	\$	\$	\$	\$
Broker portal . . . . .	3	—	—	(1)	2
Policy management system — Software . . . . .	332	227	—	(176)	383
Document management system . . . . .	7	—	—	(3)	4
Customer list . . . . .	602	—	—	(121)	481
Total . . . . .	<u>944</u>	<u>227</u>	<u>—</u>	<u>(301)</u>	<u>870</u>
<u>December 31, 2015</u>	<u>Opening</u>	<u>Additions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Closing</u>
	\$	\$	\$	\$	\$
Broker portal . . . . .	5	—	—	(2)	3
Policy management system — Software . . . . .	299	181	—	(148)	332
Document management system . . . . .	12	—	—	(5)	7
Customer list . . . . .	753	—	—	(151)	602
Total . . . . .	<u>1,069</u>	<u>181</u>	<u>—</u>	<u>(306)</u>	<u>944</u>

12. CAPITAL MANAGEMENT

The Company's capital is its shareholders' equity, which comprises share capital, retained earnings and accumulated other comprehensive income.

Oversight of the Company's capital rests with management and the board of directors. Their objectives are threefold: (i) to ensure the Company is prudently capitalized relative to the amount and type of risks assumed and the requirements established under the Insurance Companies Act of Canada and by OSFI; (ii) to ensure the Company's insureds, and the independent insurance brokers through which it distributes its products, perceive it to be soundly capitalized; and, (iii) to ensure the ultimate shareholders receive an appropriate return on their investment.

Under guidelines established by OSFI which impact Trisura Guarantee, Canadian property and casualty insurance companies must maintain minimum levels of capital as determined in accordance with a prescribed test — the minimum capital test, or MCT — which expresses available capital (actual capital plus or minus specified adjustments) as a percentage of required capital. Companies are expected to maintain MCT levels of at least 150% and are further required to establish their own unique target MCT levels based on the nature of their operations and the business they write. Management, with the board of directors' approval, has established the Company's target MCT level in accordance with these requirements. The Company has exceeded this measure as at December 31, 2016 and 2015.

Subject to satisfying the preceding objectives, the intent is to provide a suitable return to the Company's shareholders by way of dividends. Dividend payments will be made at a level that ensures sufficient capital is retained in the Company to satisfy budgeted operating requirements, any strategic initiatives, as well as the above noted MCT requirements.

13. SHARE CAPITAL

The Company's authorized share capital comprises an unlimited number of common shares with no stated par value. Until August 4, 2016, the Company's share capital also consisted of an unlimited number of Class A non-voting common shares, Series 1 and Series 2, with a par value of \$25.00 per share.

6436978 CANADA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016  
(In thousands of dollars)

13. SHARE CAPITAL (Continued)

*Common shares*

As at December 31, 2016, an amount of \$3,000 (2015 — \$3,000) common shares were issued and outstanding. The following is a reconciliation of the number of common shares outstanding as at December 31, 2016 and December 31, 2015:

<u>As at</u>	<u>December 31, 2016</u> <u>(number of shares)</u>	<u>December 31, 2015</u> <u>(number of shares)</u>
Balance, beginning of the year . . . . .	3,000,000	3,000,000
Common shares issued . . . . .	—	—
Common shares repurchased for cancellation . . . . .	—	—
Balance, end of year . . . . .	<u>3,000,000</u>	<u>3,000,000</u>

*Class A non-voting common shares*

On August 4, 2016, all outstanding Class A non-voting common shares were redeemed. As at December 31, 2016, there were Nil (2015 — 840,000) Class A non-voting common shares outstanding. On liquidation, holders of the Class A non-voting common shares were entitled to a payment equal to \$25.00 per share, plus a value accretion equal to 8% of \$25.00 for the period from the date of issue of the shares to the date of liquidation, less the total amount of any dividends paid on the shares prior to the liquidation. Class A non-voting common shares were not redeemable or retractable at the option of the holder and payments of dividends were at the discretion of the directors of the Company.

During the year ended December 31, 2016, the Company redeemed 840,000 Class A, Series 1 shares for \$38,702, of which \$17,702 represented the value accretion (dividends paid) on the shares.

During the year ended December 31, 2015, the Company redeemed 80,000 Class A, Series 2 shares for \$3,000, of which \$1,000 represented the value accretion (dividends paid) on the shares.

The following is a reconciliation of the number of Class A, Series 1 shares as at December 31, 2016 and December 31, 2015:

<u>As at</u>	<u>December 31, 2016</u> <u>(number of shares)</u>	<u>December 31, 2015</u> <u>(number of shares)</u>
Balance, beginning of the year . . . . .	840,000	840,000
Class A Series 1 shares issued . . . . .	—	—
Class A Series 1 shares repurchased for cancellation . . . . .	<u>(840,000)</u>	—
Balance, end of year . . . . .	<u>—</u>	<u>840,000</u>

The following is a reconciliation of the number of Class A, Series 2 shares as at December 31, 2016 and December 31, 2015:

<u>As at</u>	<u>December 31, 2016</u> <u>(number of shares)</u>	<u>December 31, 2015</u> <u>(number of shares)</u>
Balance, beginning of the year . . . . .	—	80,000
Class A Series 2 shares issued . . . . .	—	—
Class A Series 2 shares repurchased for cancellation . . . . .	—	<u>(80,000)</u>
Balance, end of year . . . . .	<u>—</u>	<u>—</u>

14. LOAN PAYABLE

On August 4, 2016, the Company finalized an arrangement to borrow \$35 million for the purpose of redeeming the balance of the Class A common shares outstanding as of that date, as well as issuing a dividend to pay the \$16.1 million of accumulated value accretion associated with those shares.

**6436978 CANADA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of the years in  
the three-year period ended December 31, 2016  
(In thousands of dollars)**

**14. LOAN PAYABLE (Continued)**

The credit arrangement was arranged by way of a five-year lending facility funded through short term banker's acceptance or Canadian prime rate advances. The rate is based on the current periods' bankers' acceptance rate or Canadian prime rate, plus a margin. The loan balance is accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consists only of interest, with no mandatory principal payments required.

As part of the covenants of the loan, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2016.

**15. LEASE COMMITMENTS**

The Company occupies office facilities under leases that expire on or before May 31, 2026, inclusive of a five year renewal option. The minimum annual rental commitments under these leases, exclusive of taxes and other operating expenses, are as follows:

	<u>\$</u>
2017 . . . . .	1,015
2018 . . . . .	997
2019 . . . . .	974
2020 . . . . .	978
2021 . . . . .	536
Thereafter . . . . .	754
	<u>5,254</u>

**16. BENEFITS**

The Company has established a group registered retirement savings plan arrangement under which all employees are required to contribute 4% of their salary and the Company makes a matching contribution, increasing to 5% in the calendar year following an employee's fifth year of service, and 6% after the employee's tenth year of service. During the year ended December 31, 2016, the Company contributed \$468 (2015 — \$427; 2014 — \$395) under this arrangement.

**17. RELATED PARTY TRANSACTIONS**

The Company is a subsidiary of Brookfield Asset Management Inc. (Brookfield), which is the Company's ultimate controlling party. The Company and Trisura Guarantee have entered into outsourcing arrangements with Brookfield and an entity subject to common control with respect to the provision by them of information technology, internal audit and investment management services. The Company also leases office facilities from companies subject to common control. In addition, the Company occasionally issues surety bonds and insurance policies on behalf of, or for, certain companies under common control. These transactions are conducted in the normal course of business and are measured at the amount of consideration paid or established and agreed between the parties. Trisura Guarantee entered into a tax transfer arrangement with Brookfield in 2016, as permitted under applicable income tax legislation and the Act. During the year ended December 31, 2016, Trisura Guarantee made a payment to Brookfield for taxes paid relating to 2015 in the amount of \$1,700 (2015 — \$3,000 relating to 2014; 2014 — \$2,100 relating to 2013).

During the year ended December 31, 2016, the expenses incurred for outsourcing services totaled \$1,471 (2015 — \$1,126; 2014 — \$965); amounts paid and payable to related companies for leased and shared premises and parking facilities, exclusive of taxes and other operating expenses, totaled \$690 (2015 — \$359; 2014 — \$359); amounts received for sub-leased premises totaled \$110 (2015 and 2014 — Nil); premiums charged for bonds and policies totaled \$567 (2015 — \$122; 2014 — \$178); and incidental payments made on behalf of Brookfield totaled \$10 (2015 — \$311; 2014 — Nil).

As at December 31, 2016, there was \$10 due for a reimbursement from Brookfield for costs incurred (2015 — \$311).

As at December 31, 2016, Executive Share Purchase Plan loans due from related parties amounted to \$1,542 (2015 — \$1,875); and interest receivable related to this balance was \$355 (2015 — \$316). During the year ended December 31, 2016, interest income earned related to the shareholder loans was \$72 (2015 — \$89; 2014 — \$125).

The amount due to related parties at December 31, 2016 comprises \$37 (2015 — \$31) for outsourced services provided.

**6436978 CANADA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of the years in  
the three-year period ended December 31, 2016  
(In thousands of dollars)**

**17. RELATED PARTY TRANSACTIONS (Continued)**

*Notes payable*

During 2012, the Company redeemed 500,000 of its shares owned by Brookfield, originally purchased at one dollar per share, in exchange for a \$2,750 note payable. The note payable is due in 10 years and accumulates interest at a rate of prime plus 1%. The redeemed shares were subsequently cancelled. As at December 31, 2016, the total due to Brookfield under the note payable was \$530 (2015 — \$873). During the year ended December 31, 2016, interest expense of \$24 (2015 — \$42; 2014 — \$80) was incurred related to the note payable.

*Key management personnel*

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company.

The following transactions were carried out with key management personnel during the years ended December 31, 2016, 2015 and 2014:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
	\$	\$	\$
Salaries and other short-term employee benefits . . . . .	<b>7,167</b>	<b>8,989</b>	<b>7,655</b>

**18. EXECUTIVE SHARE PURCHASE PLAN**

The Company administers two executive share purchase plans that were established in 2006 and 2012 (the 2006 Plan and the 2012 Plan, respectively). Under the 2006 Plan, employees of Trisura Guarantee may purchase common shares of the Company in return for notes payable, which bear interest at the prime rate of the Company's primary lending institution plus 1%. The loans do not have to be repaid, nor does interest have to be paid, until such time as the shares are sold or redeemed. Under the 2012 Plan, employees purchase shares in return for notes payable, which they are required to repay through semi-monthly payroll deductions, as well as 50% of their after-tax annual bonus, if any. The loans bear interest at a rate equal to the prime rate of the Company's primary lending institution plus 1%. Total loans receivable related to the executive share purchase plan at December 31, 2016 is \$1,542 (2015 — \$1,875).

**19. LIABILITIES TO PARTICIPATING SHAREHOLDERS**

Under the terms of a unanimous shareholder agreement between the shareholders of the Company, the common shares issued to employees of Trisura have a puttable feature, which results in their being classified as financial liabilities in accordance with IAS 32, Financial Instrument: Presentation. These liabilities are measured at fair value, being the put value ascribed to the shares under the unanimous shareholder agreement. Assumptions have been made by management regarding the put value, as the shareholders agreement has various clauses under which different values can be ascribed to the shares. As at December 31, 2016, the fair value of the liabilities was \$16,008 (2015 — \$15,812).

6436978 CANADA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in the three-year period ended December 31, 2016  
(In thousands of dollars)

20. OTHER COMPREHENSIVE INCOME (LOSS)

The following sets out the components of other comprehensive income (loss) for the years ended December 31:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	\$	\$	\$
Unrealized gains on available-for-sale investments . . . . .	5,301	(206)	3,275
Unrealized losses on available-for-sale investments . . . . .	(976)	(5,605)	(1,792)
Income tax expense / (recovery) . . . . .	(1,906)	1,230	(379)
	<u>2,419</u>	<u>(4,581)</u>	<u>1,104</u>
Reclassified to income			
Realized gains . . . . .	524	298	258
Realized losses . . . . .	(166)	(16)	(135)
Impairment . . . . .	(2,888)	(1,157)	—
Income tax expense . . . . .	(88)	(50)	(46)
	<u>(2,618)</u>	<u>(925)</u>	<u>77</u>
Other comprehensive income (loss) . . . . .	<u>5,037</u>	<u>(3,656)</u>	<u>1,027</u>

As at December 31, 2016, included in accumulated other comprehensive income (loss) is a tax recovery of \$1,742 (2015 — tax expense \$499; 2014 — tax expense of \$1,204).

21. SEGMENTED INFORMATION

The Company has one reportable segment which comprises specialty insurance solutions, surety solutions and risk solutions products.

22. INCOME TAXES

The Company's deferred tax assets and liabilities consist of the following:

	<u>Consolidated statements of financial position</u>		<u>Consolidated statements of comprehensive income</u>	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
	\$	\$	\$	\$
Deferred taxes related to:				
Unpaid claims and adjustment expenses . . . . .	571	407	(164)	(53)
Investments . . . . .	1,190	425	(765)	(286)
Other . . . . .	18	22	4	7
	<u>1,779</u>	<u>854</u>	<u>(925)</u>	<u>(332)</u>
Less deferred taxes related to:				
Investments — mark-to-market . . . . .	(1,280)	(500)	780	262
Property, plant and equipment, intangible and other assets . . . . .	(25)	(36)	(11)	(14)
	<u>(1,305)</u>	<u>(536)</u>	<u>769</u>	<u>248</u>
Deferred income taxes . . . . .	<u>474</u>	<u>318</u>	<u>(156)</u>	<u>(84)</u>
Reported in:				
Deferred tax assets . . . . .	474	318	—	—
Income tax (recovery) reported to net income . . . . .	—	—	(936)	(346)
Income tax expense reported to other comprehensive income . . . . .	—	—	780	262

6436978 CANADA LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As at December 31, 2016 and December 31, 2015 and for each of the years in  
the three-year period ended December 31, 2016  
(In thousands of dollars)

22. INCOME TAXES (Continued)

	Consolidated statements of financial position	Consolidated statements of comprehensive income
	December 31, 2014	December 31, 2014
	\$	\$
Deferred taxes related to:		
Unpaid claims and adjustment expenses . . . . .	354	(16)
Investments . . . . .	139	(15)
Other . . . . .	29	3
	<u>522</u>	<u>(28)</u>
Less deferred taxes related to:		
Investments — mark-to-market . . . . .	(238)	41
Property, plant and equipment, intangible and other assets . . . . .	(50)	(26)
	<u>(288)</u>	<u>15</u>
Deferred income tax expense (recovery) . . . . .	<u>234</u>	<u>(13)</u>
Reported in:		
Deferred tax assets . . . . .	234	—
Income tax (recovery) reported to net income . . . . .	—	(54)
Income tax expense reported to other comprehensive income . . . . .	—	41
	<u>—</u>	<u>41</u>

A deferred income tax asset is recognized only to the extent that realization of the related income tax benefit through future taxable profits is probable. Management has assessed the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as at December 31, 2016 and 2015 are recoverable.

The following shows the major components of income tax expense for the years ended December 31, 2016, 2015 and 2014:

	December 31, 2016	December 31, 2015	December 31, 2014
	\$	\$	\$
<b>Income tax recorded in net income</b>			
Current tax expense:			
Current year . . . . .	2,510	3,284	2,743
Prior year true-up . . . . .	(10)	(2)	(11)
	<u>2,500</u>	<u>3,282</u>	<u>2,732</u>
Deferred tax expense:			
Origination and reversal of temporary differences . . . . .	(936)	(346)	(54)
Income tax expense . . . . .	<u>1,564</u>	<u>2,936</u>	<u>2,678</u>
<b>Income tax recorded in other comprehensive income</b>			
Net changes in unrealized gains on available-for-sale investments . . . . .	1,126	(1,492)	338
Reclassification to net income of net gains on available-for-sale investments . . . . .	(88)	(50)	(46)
Origination and reversal of temporary differences . . . . .	780	262	41
Total income tax expense (recovery) recorded in other comprehensive income . . . . .	<u>1,818</u>	<u>(1,280)</u>	<u>333</u>

**6436978 CANADA LIMITED**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of the years in  
the three-year period ended December 31, 2016  
(In thousands of dollars)**

**22. INCOME TAXES (Continued)**

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax provision included in the consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
	\$	\$	\$
Income before income taxes . . . . .	<b>6,132</b>	8,437	11,887
Statutory income tax rate . . . . .	<b>26.74%</b>	26.50%	26.40%
	<b>1,640</b>	2,237	3,135
Variations due to:			
Permanent differences . . . . .	<b>(276)</b>	695	(443)
Valuation allowance . . . . .	<b>213</b>	—	—
Rate differentials:			
Current rate versus future rate . . . . .	<b>(2)</b>	11	(4)
Change in future rate . . . . .	<b>(1)</b>	(5)	1
True up . . . . .	<b>(10)</b>	(2)	(11)
Income tax expense . . . . .	<b>1,564</b>	2,936	2,678
Current . . . . .	<b>2,500</b>	3,282	2,732
Deferred . . . . .	<b>(936)</b>	(346)	(54)
Income tax expense . . . . .	<b>1,564</b>	2,936	2,678

The applicable tax rate for the Company has increased from 2014 to 2015 to 2016 as a result of a change in the mix of provinces and territories where premium is being written, as well as an increase in the provincial tax rates.

**23. EARNINGS PER SHARE**

During the years ended December 31, 2016, 2015 and 2014, the basic earnings per common share is calculated by dividing the net income attributed to common shareholders by the weighted average number of common shares outstanding during the year. The diluted earnings per common share is the same as the basic earnings per common share as there were no dilutive factors.

**24. SUBSEQUENT EVENT**

On January 27, 2017, Trisura Group Ltd. (“TGL”), a newly formed subsidiary of Brookfield, was incorporated. Pursuant to a preliminary prospectus dated February 10, 2017, and subject to receipt of all regulatory approvals, Brookfield intends to transfer all of its interests in the Company to TGL. Brookfield intends to spin-off all of the common shares of TGL to the holders of its Class A limited voting shares and Class B limited voting shares. Upon completion of this spin-off transaction, the Company’s ultimate parent company will be TGL, which will be a standalone public company.

**Consolidated Financial Statements of**  
**Imagine Group Holdings Limited**  
**As at December 31, 2016 and December 31, 2015 and for each of the**  
**years in the three-year period ended December 31, 2016**





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P. O Box 690C  
Bridgetown, Barbados

## INDEPENDENT AUDITORS' REPORT

### To the Shareholder of Imagine Group Holdings Limited

We have audited the accompanying consolidated financial statements of Imagine Group Holdings Limited, (the "Company") which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and December 31, 2015, its consolidated financial performance and its consolidated cash flows for each of the years in the three-year period ended December 31, 2016 in accordance with International Financial Reporting Standards.

Chartered Accountants  
Bridgetown, Barbados  
March 28, 2017

KPMG, a Barbados partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International") a Swiss entity

**IMAGINE GROUP HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at December 31, 2016 with comparative figures as at December 31, 2015**  
**(Expressed in Thousands of United States Dollars)**

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Cash and investments			
Cash and cash equivalents . . . . .	7	\$ 68,971	\$ 59,833
Fixed maturities . . . . .	8 & 10	37,123	69,748
Structured insurance assets . . . . .	9 & 10	11,254	9,035
Accrued investment income . . . . .		246	667
<b>Total cash and investments</b> . . . . .		<u>117,594</u>	<u>139,283</u>
Premiums and other reinsurance balances receivable . . . . .		136	1,526
Funds held by ceding companies . . . . .		302	962
Other assets . . . . .	11	219	242
Corporation tax assets . . . . .		321	321
Deferred tax assets . . . . .	19	110	336
<b>Total assets</b> . . . . .		<u>\$118,682</u>	<u>\$142,670</u>
<b>Liabilities and Shareholder's Equity</b>			
<b>Liabilities</b>			
Accounts payable and other liabilities . . . . .	12	\$ 4,002	\$ 1,619
Reinsurance balances payable . . . . .		2,327	6,481
Claims and claims adjustment expenses — . . . . .	13		
Case reserves . . . . .		61,937	69,587
Incurred but not reported . . . . .		9,851	16,629
Investment contract liabilities . . . . .		2,046	2,009
Deferred tax liabilities . . . . .	19	—	18
Derivative liabilities . . . . .		207	858
Loan payable . . . . .	20	—	5,000
<b>Total liabilities</b> . . . . .		<u>80,370</u>	<u>102,201</u>
<b>Shareholder's Equity</b>			
Share capital . . . . .	14	4,923	4,923
Retained earnings . . . . .		33,280	34,499
Other comprehensive income . . . . .		109	1,047
<b>Total shareholder's equity</b> . . . . .		<u>38,312</u>	<u>40,469</u>
<b>Total liabilities and shareholder's equity</b> . . . . .		<u>\$118,682</u>	<u>\$142,670</u>

*See accompanying notes to consolidated financial statements.*

**IMAGINE GROUP HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
For the year ended December 31, 2016 with comparative figures for the years ended  
December 31, 2015 and December 31, 2014  
(Expressed in Thousands of United States Dollars)

	Notes	2016	2015	2014
<b>Revenues</b>				
Net written premiums . . . . .		\$ 123	\$ 138	\$ 261
Net earned premiums . . . . .		123	138	261
Net investment income . . . . .	8,16 & 20	8,528	4,225	21,012
Fee (loss) income on investment contracts . . . . .		(571)	706	4,685
Net foreign exchange (losses) gains . . . . .		(399)	2,412	485
Other income . . . . .		10	—	451
<b>Total revenues</b> . . . . .		<u>7,691</u>	<u>7,481</u>	<u>26,894</u>
<b>Expenses</b>				
Claims and claims adjustment expenses incurred . . . . .	13	4,268	(13,102)	31,063
Policy acquisition costs . . . . .		546	439	69
Operating expenses . . . . .	17, 20 & 22	3,871	4,654	5,226
<b>Total expenses</b> . . . . .		<u>8,685</u>	<u>(8,009)</u>	<u>36,358</u>
<b>(Loss) Income before corporation taxes</b> . . . . .		(994)	15,490	(9,464)
Corporation tax expense . . . . .	18	225	254	247
<b>Net (loss) income for the year</b> . . . . .		<u>\$(1,219)</u>	<u>\$ 15,236</u>	<u>\$(9,711)</u>
<b>Other comprehensive loss</b>				
<i>Items that are or may be reclassified to profit or loss</i>				
Net change in fair value of available for sale financial assets . . .		\$ (555)	\$ (357)	\$ (863)
Realized (losses) gains on available for sale financial assets . . .		(383)	(718)	580
Impairment loss on available for sale financial assets . . . . .	8,16	—	145	108
<b>Other comprehensive loss for the year</b> . . . . .		<u>\$ (938)</u>	<u>\$ (930)</u>	<u>\$ (175)</u>
<b>Total comprehensive (loss) income for the year</b> . . . . .		<u>\$(2,157)</u>	<u>\$ 14,306</u>	<u>\$(9,886)</u>

*See accompanying notes to consolidated financial statements.*

**IMAGINE GROUP HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2016 with comparative figures for the years ended  
December 31, 2015 and December 31, 2014  
(Expressed in Thousands of United States Dollars)

	Share Capital	Retained Earnings	Unrealized Investment Gains (Losses)	Total Shareholder's Equity
At January 1, 2014 . . . . .	\$ 6,138	\$36,656	\$2,152	\$44,946
Repurchase of shares . . . . .	(8,462)	—	—	(8,462)
Premium on share repurchase . . . . .	7,247	(7,682)	—	(435)
<b>Total comprehensive loss for the year</b>				
Net loss for the year . . . . .	—	(9,711)	—	(9,711)
<b>Other comprehensive loss</b>				
Fair value losses — available for sale investments . . . . .	—	—	(863)	(863)
Realized gains — available for sale investments . . . . .	—	—	580	580
Impairment loss — available for sale investments . . . . .	—	—	108	108
Total other comprehensive loss . . . . .	—	—	(175)	(175)
Total comprehensive loss for the year . . . . .	—	(9,711)	(175)	(9,886)
At December 31, 2014 . . . . .	<u>\$ 4,923</u>	<u>\$19,263</u>	<u>\$1,977</u>	<u>\$26,163</u>
At January 1, 2015 . . . . .	\$ 4,923	\$19,263	\$1,977	\$26,163
<b>Total comprehensive income for the year</b>				
Net income for the year . . . . .	—	15,236	—	15,236
<b>Other comprehensive loss</b>				
Fair value losses — available for sale investments . . . . .	—	—	(357)	(357)
Realized losses — available for sale investments . . . . .	—	—	(718)	(718)
Impairment loss — available for sale investments . . . . .	—	—	145	145
Total other comprehensive loss . . . . .	—	—	(930)	(930)
Total comprehensive income for the year . . . . .	—	15,236	(930)	14,306
At December 31, 2015 . . . . .	<u>\$ 4,923</u>	<u>\$34,499</u>	<u>\$1,047</u>	<u>\$40,469</u>
At January 1, 2016 . . . . .	\$ 4,923	\$34,499	\$1,047	\$40,469
<b>Total comprehensive loss for the year</b>				
Net loss for the year . . . . .	—	(1,219)	—	(1,219)
<b>Other comprehensive loss</b>				
Fair value losses — available for sale investments . . . . .	—	—	(555)	(555)
Realized losses — available for sale investments . . . . .	—	—	(383)	(383)
Total other comprehensive loss . . . . .	—	—	(938)	(938)
Total comprehensive loss for the year . . . . .	—	(1,219)	(938)	(2,157)
At December 31, 2016 . . . . .	<u>\$ 4,923</u>	<u>\$33,280</u>	<u>\$ 109</u>	<u>\$38,312</u>

*See accompanying notes to consolidated financial statements.*

**IMAGINE GROUP HOLDINGS LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended December 31, 2016 with comparative figures for the years ended  
December 31, 2015 and December 31, 2014  
(Expressed in Thousands of United States Dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>				
Net (loss) income for the year . . . . .		\$ (1,219)	\$ 15,236	\$ (9,711)
Adjustments for:				
Investment income . . . . .		520	(8,317)	(9,853)
Impairment losses on available for sale securities . . . . .	8 & 16	—	145	108
Net unrealized investment losses (gains) . . . . .	16	(2,215)	3,946	(11,267)
Income tax expense . . . . .	18	225	254	247
Changes in operating assets and liabilities:				
Other assets . . . . .		23	1,074	13,250
Funds held by ceding companies . . . . .		660	3	11
Premiums and other reinsurance balances receivable . . . . .		1,390	(919)	(465)
Reinsurers' share of claims and claims adjustment expenses . . . . .		—	—	761
Claims and claims adjustment expenses . . . . .		(14,428)	(40,349)	(24,968)
Investment contract liabilities . . . . .		37	(729)	(2,052)
Reinsurance balances payable . . . . .		(4,154)	3,308	114
Deferred tax liability . . . . .		(18)	—	—
Accounts payable and other liabilities . . . . .		2,383	(212)	(301)
		<u>(16,796)</u>	<u>(26,560)</u>	<u>(44,126)</u>
Net corporation taxes paid . . . . .		(1)	(5)	(94)
<b>Net cash used in operating activities</b> . . . . .		<u>(16,797)</u>	<u>(26,565)</u>	<u>(44,220)</u>
<b>Cash Flows from Investing Activities</b>				
Interest received . . . . .		421	8,583	9,880
Net movement of short-term investments . . . . .		—	—	835
Net movement of structured insurance assets . . . . .		(2,219)	965	(2,152)
Net movement of derivative financial instruments . . . . .		(651)	1,291	(467)
Purchase of fixed maturities . . . . .		(3,434)	(5,080)	(57,658)
Proceeds on sale of fixed maturities . . . . .	8	36,818	27,356	110,744
<b>Net cash from investing activities</b> . . . . .		<u>30,935</u>	<u>33,115</u>	<u>61,182</u>
<b>Cash Flows from Financing Activities</b>				
Share repurchase . . . . .		—	—	(8,898)
Net movement on loan payable . . . . .	20	(5,000)	—	5,000
<b>Net cash used in financing activities</b> . . . . .		<u>(5,000)</u>	<u>—</u>	<u>(3,898)</u>
Net increase in cash and cash equivalents during the year . . . . .		9,138	6,550	13,064
Cash and cash equivalents at beginning of the year . . . . .		59,833	53,283	40,219
Cash and cash equivalents at end of the year . . . . .		<u>\$ 68,971</u>	<u>\$ 59,833</u>	<u>\$ 53,283</u>
Cash and cash equivalents is comprised of:				
Cash balances . . . . .		\$ 17,453	\$ 39,608	\$ 23,255
Short-term investments . . . . .		51,518	20,225	30,028
		<u>\$ 68,971</u>	<u>\$ 59,833</u>	<u>\$ 53,283</u>

*See accompanying notes to consolidated financial statements.*

**IMAGINE GROUP HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**As at December 31, 2016 and December 31, 2015 and for each of**  
**the three years for the three-year period ended December 31, 2016**  
**(Expressed in Thousands of United States Dollars)**

**1. GENERAL AND BACKGROUND**

Imagine Group Holdings Limited (the “Company” or “IGHL”) is a holding company formed under the laws of Bermuda, with its registered office located at 73 Front Street, Hamilton, Bermuda. The Company was incorporated on December 10, 1998. On February 18, 2014, the Company repurchased 1,093,408 and 121,490 of its common shares from Franklin and Odyssey America Reinsurance Corporation respectively for an aggregate price of \$8,462. As a result of the share repurchase, Imagine became a 100% owned subsidiary of Brookfield Asset Management Inc. (“Brookfield”).

Effective February 8, 2017, Imagine Group Holdings Limited was renamed Trisura International Holdings Ltd.

The Company, through its subsidiaries, all of which are wholly owned (together the “Group”) were engaged in providing specialty insurance and reinsurance products to the insurance marketplace. In 2008 the Group ceased writing new business. For the foreseeable future, the Group will continue to service claims related to business written in 2008 and prior. As a result, it considers it appropriate to recognize all amounts as related to continuing operations.

These Consolidated Financial Statements were authorized for issue by the directors on March 28, 2017.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Consolidated Financial Statements are presented in United States dollars, rounded to the nearest thousand except in the case of per share items. They are prepared in accordance with International Financial Reporting Standards (“IFRS”). They are prepared on the historical cost basis except for the accounting for investments, structured insurance assets and derivative financial instruments as detailed in Note 2(g).

The accounting policies adopted by the Group are consistent with those of the previous financial year and are as follows:

*a) Principles of consolidation*

Subsidiaries are entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intercompany balances and transactions including unrealized intercompany profits have been eliminated in the preparation of these Consolidated Financial Statements.

*b) Classification of insurance and investment contracts*

Contracts under which the Group accepts significant insurance risk from another party (the policyholder or ceding company) by agreeing to compensate the policyholder or ceding company if a specified uncertain future event (the insured event) adversely affects the policyholder or ceding company are classified as insurance contracts.

Insurance risk is significant if, and only if, an insured event could cause the Group to pay significant additional benefits. Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expire unless its contractual terms are varied such that significant insurance risk no longer exists.

Contracts under which the transfer of insurance risk to the Group from the policyholder or ceding company is not significant are classified as investment contracts, as described in Note 2(d). Insurance risk is risk other than financial risk.

Insurance contracts may also transfer financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

*c) Insurance contracts*

*(i) Premiums and policy acquisition costs*

Net written premiums reflect business written during the year and are recognized as earned premium over the exposure period of the related insurance and reinsurance contracts. Exposure periods are based on underwriting and actuarial judgment and, as a result, are subject to potential variance from the original estimates. Policy acquisition costs are deferred and amortized over the period in which the related premiums are earned.

**IMAGINE GROUP HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of  
the three years for the three-year period ended December 31, 2016  
(Expressed in Thousands of United States Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*c) Insurance contracts (continued)*

*(ii) Funds held by ceding companies*

Funds held by ceding companies are carried at amortized cost using the effective interest rate method. These amounts are reported on a net basis, as a deduction from claims and claim adjustment expenses, where the effective right of offset exists.

*(iii) Premiums and other reinsurance balances receivable and reinsurance balances payable*

Premiums and other reinsurance balances receivable and reinsurance balances payable are recognized when due or payable. They include amounts due to and from brokers and contract holders. Premiums and other reinsurance balances receivable are carried at amortized cost less any provision for impairment.

*(iv) Claims and claims adjustment expenses*

The liability for claims and claims adjustment expenses represents the estimates of the ultimate cost of all claims incurred but not paid by the statement of financial position date. The principles governing the setting of reserves are covered by the Group's Reserving Policy which is subject to annual review and ratification process by the Audit and Risk Committee and the Board. The reserving process includes consideration of individual case estimates received from ceding companies and a provision for claims and claims adjustment expenses related to incurred but not reported claims ("IBNR"), including expected development on reported claims. The IBNR provision is established by qualified actuaries. Inherent in the estimate of ultimate claims are expected trends in frequency, claim severity, timing of claim payments, interest yields, reporting and adjusting lags, potential disputes and other factors that could vary significantly as claims are settled.

Accordingly, ultimate claims could differ, perhaps substantially, from the estimate recorded in these Consolidated Financial Statements. These estimates are regularly reviewed and, as adjustments become necessary, such adjustments are reflected in profit or loss for the year in which the adjustment is made.

For a limited number of transactions entered into by the Group, the liability for claims and claims adjustment expenses is reported on a discounted basis, which estimates the present value of funds required to pay claims at future dates assuming appropriate interest rates and payment profiles. These reserves are discounted based on estimated loss pay-out patterns. Transactions where the discounting of reserves has been utilized are based on management's assumptions that the timing and amount of claim payments and the amount of the liability are reliably determinable and where anticipated future investment income is an integral variable when pricing a particular contract. However, such liability is necessarily based on estimates and the ultimate liability could significantly differ from the Group's estimates. The amount of discount is regularly reviewed and, as adjustments become necessary, such adjustments are reflected in profit or loss in the year in which the adjustment is made. Further discussion on discounting including the basis for setting interest rates and sensitivity to variation in such interest rates is included in Note 13.

As the Group no longer has unearned premium, the claims provisions no longer include a reserve for unexpired risks.

*d) Investment contracts*

Contracts under which the transfer of insurance risk to the Group from the policyholder or ceding company is not significant are classified as investment contracts. Investment contracts are recognized as liabilities in the Consolidated Statements of Financial Position and are the estimates of the ultimate cost of all claims expected to be settled on the contracts. Contributions received from policyholders or ceding companies are not recognized in the Consolidated Statements of Profit or Loss and Other Comprehensive Income ("OCI") as premiums and are instead accounted for as investment contract liabilities. Claims are treated as an adjustment to the investment contract liability and are not reflected within the Consolidated Statements of Profit or Loss and OCI unless the investment contract liability is insufficient. Where there is a recovery or an amount receivable under these types of contracts, the amount is reported as an investment contract asset on the Consolidated Statements of Financial Position and is carried at amortized cost less any provision for impairment. Income from these contracts is recognized as the related services are provided and is reflected within fee income on investment contracts on the Consolidated Statements of Profit or Loss and OCI.

**IMAGINE GROUP HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of  
the three years for the three-year period ended December 31, 2016  
(Expressed in Thousands of United States Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*e) Events after the statement of financial position date*

These Consolidated Financial Statements are adjusted to reflect events that occurred between the statement of financial position date and the date when these Consolidated Financial Statements are authorized for issue, provided they give evidence of conditions that existed at the statement of financial position date. Significant events that are indicative of conditions that arose after the statement of financial position date are disclosed, but do not result in an adjustment to these Consolidated Financial Statements.

*f) Revenue*

The Group's revenue comprises the following:

*(i) Net earned premiums from insurance contracts*

The accounting policies for the recognition of revenue from insurance contracts are disclosed in Note 2(c).

*(ii) Fee income on investment contracts*

The accounting policies for the recognition of revenue from investment contracts are disclosed in Note 2(d).

*(iii) Net investment income*

Investment income from financial assets comprises interest, dividend and commission income, unrealized gains and losses on financial instruments designated at fair value as well as realized gains and losses on all financial instruments and impairments on available for sale securities. Income on available-for-sale fixed maturities and loans and receivables is recognized using the effective interest rate method. Investment income is reported net of investment management fees and other investment related expenses.

*g) Financial instruments*

Financial assets or financial liabilities are recognized at the time the Group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the contractual rights to the cash flows expire or when the assets have been transferred together with substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the Group's obligations expire, are discharged or cancelled.

The Group classifies its financial instruments in the following categories: financial assets and liabilities at fair value through profit or loss (including those designated as such on initial recognition and those classified as held for trading), loans and receivables, available for sale financial assets and financial liabilities at amortized cost. The classification is dependent on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at the time of the purchase.

The classification and other disclosures, including fair values, with respect to certain financial instruments are separately included in the notes to the Consolidated Financial Statements where appropriate. Cash and cash equivalents, accrued investment income, funds held by ceding companies, premiums and other reinsurance balances receivable, investment contract assets, reinsurers' share of claims and claim adjustment expenses, certain other assets, reinsurance balances payable and accounts payable and other liabilities are classified as loans and receivables or liabilities at amortized cost. The carrying value of these assets approximate their fair value due to their short-term nature.

*(i) Fixed maturities and short-term investments*

Investments in fixed maturities are classified as available for sale or "at fair value through profit or loss". Fixed maturities "at fair value through profit or loss" are measured at fair value and changes therein are recognized in net investment income in the Consolidated Statements of Profit or Loss and OCI. Available for sale investments are initially recorded at fair value, including transaction costs and are subsequently recorded at fair value based on published market bid prices. Unrealized gains and losses arising from changes in fair value are included within other comprehensive income in the Consolidated Statements of Profit or Loss and OCI until the investment is derecognized or is determined to be impaired. On derecognition or impairment, the cumulative unrealized gains or losses previously reported within other comprehensive income are transferred to net investment income within the Consolidated Statements of Profit or Loss and OCI. Realized gains and losses arising from the sale of these investments, which are determined by specific identification, are included within net realized investment gains and losses and include adjustments for declines in value that are considered other than temporary.

Short-term investments, which have a maturity of three months to one year at the date of acquisition, are classified as available for sale and carried at amortized cost, which approximates their fair value.



**IMAGINE GROUP HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of  
the three years for the three-year period ended December 31, 2016  
(Expressed in Thousands of United States Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*g) Financial instruments (continued)*

*(ii) Structured insurance assets*

Structured insurance assets consisting of purchased commission arrangements are designated on inception as a financial asset “at fair value through profit or loss” as they are managed and their performance evaluated on a fair value basis, in accordance with the Group’s documented investment strategy for these investments. Financial assets “at fair value through profit or loss” are measured at fair value and changes therein are recognized within net investment income on the Consolidated Statements of Profit or Loss and OCI. In the absence of an active market, the fair value of these financial assets has been determined by a proprietary valuation model, which reflects that the commissions due to the Company under these arrangements have credit and actuarial risks. The Company takes on the credit risk of the insurance carriers who have the ultimate payment obligation for each asset type. The majority of these insurance carriers have AM Best long term issuer credit ratings of A or better. In addition, the Company takes on actuarial risk in the form of the uncertain timing and amount of future payment of the commissions; these can be interrupted or terminated if any of the following events occur: (i) the policy is cancelled by the insured or annual premiums are not paid (“lapse risk”); (ii) the insured becomes sick and makes a claim under the insurance policy (“morbidity risk”); or (iii) the insured dies and the policy expires (“mortality risk”).

These actuarial risks are modeled using data drawn from the insurance carriers, Society of Actuaries Long Term Care Studies, as well as data from other public and non-public sources supplemented, as appropriate by assistance from external actuarial consultants, and are used to project the future commission payments the Company can expect to receive from a portfolio of long-term care policies. The valuation is based on discounting these cash flows using a U.S. Treasury yield curve adjusted for a credit margin reflecting the insurance carriers’ credit risk of making these estimated commission payments over time.

In purchasing commission rights, the Group does not act as an insurer and does not assume any obligation to pay claims or to cover their inherent litigation or arbitration exposures. The Group receives the assignment of the right to receive commission for the remaining duration of the underlying insurance policies.

*(iii) Derivative financial instruments*

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value. Fair value is based on market prices. Fair value adjustments and realized gains and losses are recognized in the Consolidated Statements of Profit or Loss and OCI.

Derivative financial instruments designated as hedging instruments, for example, forward currency contracts, are entered into by the Group to hedge its risks associated with foreign currency fluctuations. These are considered to be cash flow hedges which are initially recognized at fair value on the date on which the derivative contract is entered into. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, while the ineffective portion is recognized within net investment income in the Consolidated Statements of Profit or Loss and OCI.

*h) Cash and cash equivalents*

The Group considers all investments with an original maturity of three months or less to be cash equivalents.

*i) Corporation taxes*

Corporation tax comprises both current and deferred tax. Corporation tax is recognized in the Consolidated Statements of Profit or Loss and OCI.

Current corporation tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

**IMAGINE GROUP HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of  
the three years for the three-year period ended December 31, 2016  
(Expressed in Thousands of United States Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*i) Corporation taxes (continued)*

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill or the initial recognition of an asset or a liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting or taxable income as well as differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

*j) Employee benefits*

*(i) Defined contribution pension plans*

Obligations for contributions to defined contribution pension plans are recognized within operating expenses in the Consolidated Statements of Profit or Loss and OCI as incurred. The Group does not offer defined benefit pension plans.

*(ii) Compensation plans*

Costs incurred that are related to short-term compensation plans are expensed as the related service is provided.

*k) Foreign currency*

*(i) Functional and presentation currency*

These Consolidated Financial Statements are presented in United States dollars which is the Group's presentation currency. The financial statements of the parent and its subsidiaries are measured using the currency of the primary economic environment in which it operates ("functional currency").

Foreign currency transactions are transactions undertaken by the Group or one of its subsidiaries in a currency other than its functional currency. Foreign currency transactions are translated into the functional currency at the foreign exchange rate in effect at the date of the transactions.

Foreign currency monetary assets and liabilities are translated into functional currency at the exchange rate in effect at the statement of financial position date. Foreign exchange differences arising on translation are recognized within net income or loss in the Consolidated Statements of Profit or Loss and OCI. Foreign currency non-monetary assets and liabilities which are measured at historical cost are recorded at the exchange rate in effect at the date of transaction. Foreign currency non-monetary assets and liabilities which are measured at fair value are recorded at the exchange rate in effect at the date that fair value was determined.

For fixed maturities foreign exchange differences resulting from changes in amortized cost are recognized within net income or loss in the Consolidated Statements of Profit or Loss and OCI, whilst foreign exchange differences arising from fair value gains and losses are included in the unrealized (losses) gains within other comprehensive income in the Consolidated Statements of Profit or Loss and OCI.

*(ii) Financial statements of foreign operations*

The results and financial position of a foreign operation are translated into United States dollars as follows:

- assets and liabilities are translated at the foreign exchange rates in effect at the statement of financial position date; and
- income and expenses are translated at average rates approximating the foreign exchange rates in effect at the dates of the transactions.

Foreign exchange differences arising from the translation to United States dollars are recognized as cumulative translation adjustment ("CTA") in other comprehensive income within the Consolidated Statements of Profit or Loss and OCI. When a foreign operation is disposed of, in part or in full, the relevant amount in the CTA reserve is transferred to net income or loss from other comprehensive income within the Consolidated Statements of Profit or Loss and OCI.

**IMAGINE GROUP HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of  
the three years for the three-year period ended December 31, 2016  
(Expressed in Thousands of United States Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*l) Impairment*

The Group's financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is charged to net income or loss in the Consolidated Statements of Profit or Loss and OCI and is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss in respect of an available for sale financial asset is calculated by reference to its fair value. When a decline in the fair value of an available for sale security has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is transferred to net income or loss.

The carrying amounts of the Group's non-financial assets are assessed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and the carrying value is reduced to the estimated recoverable amount by means of an impairment charge to net income or loss in the Consolidated Statement of Profit or Loss and OCI.

*m) Provisions*

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

*n) Operating lease payments*

Payments made under operating leases are recognized in net income or loss on the Consolidated Statement of Profit or Loss and OCI on a straight-line basis over the term of the respective lease.

*o) Offsetting*

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statements of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Under certain reinsurance contracts, the Group offsets amounts carried as funds held by ceding companies against the corresponding liability for claims and claims adjustment expenses or investment contract liability where the intention is to settle on a net basis, or to realize the assets and settle the liability simultaneously.

*p) New and revised standards and interpretations*

Except for the changes below, the Group has consistently applied the accounting policies set out in Note 2 to all periods presented in these Consolidated Financial Statements.

*Standards and interpretations adopted*

A number of new standards and interpretations have been adopted in these Consolidated Financial Statements. Their adoption has not had any significant impact on the amounts reported in these Consolidated Financial Statements but may impact the accounting for future transactions or arrangements.

**IMAGINE GROUP HOLDINGS LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**As at December 31, 2016 and December 31, 2015 and for each of  
the three years for the three-year period ended December 31, 2016  
(Expressed in Thousands of United States Dollars)**

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*p) New and revised standards and interpretations (continued)*

*Forthcoming requirements*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these Consolidated Financial Statements. None of these are expected to have a significant effect on the Consolidated Financial Statements of the Group, except for IFRS 9 — *Financial Instruments*, which becomes mandatory for periods beginning January 1, 2018, with early adoption permitted.

IFRS 9 will result in the elimination of the available for sale classification for financial instruments resulting in all financial instruments being measured either at amortized cost, fair value through other comprehensive income, or at fair value through profit and loss on the Consolidated Statements of Profit or Loss and OCI. The Company is assessing the impact of IFRS 9 on its Consolidated Financial Statements.

Recent amendments to IFRS 4 — Insurance Contracts are being assessed.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES**

The preparation of these Consolidated Financial Statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized prospectively.

Key sources of estimation uncertainty and critical judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the Consolidated Financial Statements are outlined below:

*(i) Critical accounting judgments in applying the Group's accounting policies*

*Insurance contract classification*

Contracts are classified as insurance contracts where they transfer significant insurance risk from the holder of the contract to the Group (See Note 2(b)). There are a number of contracts issued where the Group exercises judgment with regards to the level of insurance risk transferred.

Typically, these are contracts which contain a significant financial risk component. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Group is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured or reinsured event were to occur.

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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (Continued)**

*(ii) Key sources of estimation uncertainty*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending December 31, 2016 is included below:

- Notes 2(c) and 13 contain information about the assumptions and estimates and uncertainties relating to the liability for claims and claims adjustment expenses;
- Note 4 discloses the risk factors associated with its insurance and reinsurance contracts; and
- Notes 2(g) and 9 contain information about the assumptions and uncertainty related to the structured insurance assets.

*Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values which includes input from the Group's Investment Managers that have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to management.

Significant unobservable inputs and valuation adjustments are regularly reviewed. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the evidence obtained from the third parties is assessed to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Audit and Risk Committee of the Board of Directors.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as disclosed in Note 10.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

**4. INSURANCE RISK MANAGEMENT**

**Management of in-force Portfolio**

Since ceasing to write new business at the end of 2008, the Group has established a Transaction Management Committee comprising senior management and other key operating personnel to actively managing its portfolio of in-force reinsurance contracts efficiently and cost effectively and, in so doing, protect the interests of all stakeholders including shareholders, policyholders, staff and regulators.

The key risks faced by the Group in managing its reinsurance contracts relate to inappropriate pricing and legal documentation of commutations and novations or other transfers of existing business and claim reserving and administration of remaining contracts that cannot be immediately commuted, novated or otherwise transferred.

The responsibilities of this committee that address these risks include:

- creation of a consistent, centralized control environment for the day to day management of in-force transactions;
- development of action plans for all in-force transactions to include novations, commutations or other transfers of existing business among subsidiary companies within the Group or outside of the Group;
- addressing renewal and cancellation options on all in-force transactions;
- approving and efficiently managing cancellations, commutations, novations of all transactions; and

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**4. INSURANCE RISK MANAGEMENT (Continued)**

- implementing a program of underwriting and claims audits on remaining contracts, and taking appropriate action on audit results.

**Underwriting strategy**

The Group has not written any new business since the end of 2008. As at the end of 2016 the Group has no unearned premium. Hence, the Group is no longer exposed to underwriting risk.

**Reinsurance purchasing strategy**

The Group reinsured a portion of the risks which it underwrote, where appropriate and cost effective, to control its exposures to losses and protect capital resources. At December 31, 2016, there are only a few transactions with remaining reinsurance protection in force and the Group has not booked any reinsurance recoverable in respect of these transactions. See Note 5 and Note 13 for further details.

**Concentrations and aggregations of insurance risk**

A key aspect of the insurance risk faced by the Group arose from the concentration of insurance risk where a particular event or series of events could have impacted significantly upon the Group's liability for claims and claims adjustment expenses. Such concentrations may have arisen from a single insurance or reinsurance contract or through the accumulation of risk under a number of contracts exposed to similar events.

Concentrations of risk can arise from both high-severity, low-frequency events, such as natural disasters and from situations where the underwriting of risk is biased towards a particular area of risk, such as a particular type of business or a particular geographic region.

The Group's reserves have a significant level of concentration with respect to an Irish life reinsurance transaction with reserves of \$54,214 (2015: \$55,014; 2014: \$67,100) or 76% (2015: 64%; 2014: 52%) of total claims reserves.

**High-severity, low-frequency events**

By their nature, the timing of high-severity, low-frequency events, which trigger significant losses due to concentration/aggregation of exposures, are uncertain and their occurrence is expected to be rare. While these types of events were significant risks for the Group in previous years they no longer represent a material risk to the Group following the sale in 2008 of the Group's London business where the bulk of catastrophe exposure had been written.

**Monitoring concentrations and aggregate exposures**

The Group monitors concentrations and aggregate exposures on a regular basis by reviewing reports which show the key concentrations and aggregations to which the Group is exposed. The Group uses a number of modeling tools to monitor such exposures.

**Claims development**

Claims development information is disclosed in order to illustrate the reserving risk component of insurance risk inherent in the Group. The following tables compare the development over time of the estimated ultimate cost of claims on an accident year basis. Note that the tables include accident years up to and including 2010 which is the latest accident year in which claims arose for the Group. The information in the table includes the impact of changes in foreign exchange rates. The top part of these tables, which excludes the reserves on annuity contracts, provides a review of ultimate claim cost estimates and demonstrates how these estimates have changed at subsequent reporting or accident year end dates. The estimates are increased or decreased as losses are paid and more information becomes available with respect to the quantum of unpaid claims. Data in the tables related to acquired businesses are included from the acquisition date. The lower part of the tables provides a reconciliation of the total provision for claims and claims adjustment expenses included in the Consolidated Statements of Financial Position as at December 31, 2016 and the estimate of cumulative claims. While the information in these tables provide a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these Consolidated Financial Statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The production of the claims development triangles involves a range of assumptions and the use of data from different systems. As such, the triangles may be subject to minor adjustments over time. The Group believes that the estimate of total claims and claims adjustment expenses outstanding as at December 31, 2016 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assumed that such balances will ultimately prove to be adequate. See Note 13 for details on the reserving process.

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**4. INSURANCE RISK MANAGEMENT (Continued)**

**Analysis of claim development — gross**

<u>Accident Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Estimate of Cumulative Ultimate Claims										
At end of Accident year . . . . .	577,655	235,981	350,437	268,663	292,004	210,755	223,736	37,854	4,381	
One Year Later . . . . .	612,999	265,269	354,746	277,902	288,659	217,153	222,008	37,332	4,369	
Two Years Later . . . . .	611,105	257,611	352,709	269,789	289,745	212,408	221,147	37,266	4,661	
Three Years Later . . . . .	611,403	256,867	345,717	264,443	280,835	212,388	222,877	38,885	4,674	
Four Years Later . . . . .	611,394	247,678	343,337	248,342	281,799	213,474	228,477	40,571	3,988	
Five Years Later . . . . .	611,627	245,586	332,077	253,462	284,128	218,537	232,415	41,094	3,532	
Six Years Later . . . . .	611,715	240,634	335,398	255,037	288,276	219,561	232,881	40,007	3,543	
Seven Years Later . . . . .	607,509	241,029	335,310	256,225	287,639	220,333	226,912	40,032		
Eight Years Later . . . . .	612,109	240,451	334,933	255,250	288,040	213,775	225,846			
Nine Years Later . . . . .	612,109	240,248	334,511	255,515	286,551	212,614				
Ten years Later . . . . .	612,109	240,248	334,591	252,456	286,372					
Eleven Years Later . . . . .	612,109	240,248	333,479	252,369						
Twelve Years Later . . . . .	612,109	240,050	333,358							
Thirteen Years Later . . . . .	612,288	239,588								
Fourteen Years Later . . . . .	611,894									
Estimate of Cumulative claims . . .	611,894	239,588	333,358	252,369	286,372	212,614	225,846	40,032	3,543	2,205,616
Cumulative Payments . . . . .										(2,164,589)
Effect of Discounting . . . . .										—
Add: net discounted reserves on Life contracts . . . . .										54,214
Less: amounts transferred on novation . . . . .										(23,453)
Claims and Claims adjustment expenses . . . . .										<u>71,788</u>

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**4. INSURANCE RISK MANAGEMENT (Continued)**

**Analysis of claim development — net**

<u>Accident Year</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Estimate of Cumulative Ultimate Claims										
At end of Accident year . . . . .	577,655	230,981	335,363	234,518	282,104	210,042	221,701	37,607	4,263	
One Year Later . . . . .	612,999	260,033	342,521	240,837	278,183	216,664	220,456	37,018	4,251	
Two Years Later . . . . .	611,105	253,797	344,142	234,261	279,846	212,568	220,688	36,951	4,543	
Three Years Later . . . . .	611,403	249,974	339,750	230,544	271,935	211,507	222,418	38,493	4,556	
Four Years Later . . . . .	611,394	240,262	337,553	217,152	272,883	212,592	227,867	40,178	3,871	
Five Years Later . . . . .	611,627	239,552	326,890	222,206	275,212	217,588	231,806	40,702	3,414	
Six Years Later . . . . .	611,716	234,655	330,211	223,781	279,359	218,611	232,272	39,614	3,425	
Seven Years Later . . . . .	607,510	235,202	330,123	224,970	278,722	219,384	226,302	39,639		
Eight Years Later . . . . .	612,118	234,625	329,747	223,995	279,124	212,826	225,237			
Nine Years Later . . . . .	612,118	234,421	329,324	224,260	277,634	211,665				
Ten Years Later . . . . .	612,118	234,421	329,404	221,201	277,456					
Eleven Years Later . . . . .	612,118	234,421	328,293	221,114						
Twelve Years Later . . . . .	612,118	234,224	328,172							
Thirteen Years Later . . . . .	612,297	233,761								
Fourteen Years Later . . . . .	611,903									
Estimate of Cumulative claims . . .	611,903	233,761	328,172	221,114	277,456	211,665	225,237	39,639	3,425	2,152,372
Cumulative Payments . . . . .										(2,111,345)
Effect of Discounting . . . . .										—
Add: net discounted reserves on Life contracts . . . . .										54,214
Less: amounts transferred on novation . . . . .										(23,453)
Claims and Claims adjustment expenses . . . . .										<u>71,788</u>

During 2016 there was favourable claim development of over \$3,435, mainly arising from the 2007 and 2008 accident years.

**5. FINANCIAL RISK MANAGEMENT**

The Group has exposure to market risk, credit risk and liquidity risk from its use of financial instruments and insurance and investment contracts.

**Risk management framework**

The Group's risk management approach is formalized through the Audit and Risk Committee of the Board of Directors. The Audit and Risk Committee establishes overall corporate risk appetite and sets policies and monitoring and control frameworks covering all aspects of risk. The Audit and Risk Committee is supported by the Group's internal risk management team, which is responsible for developing risk based capital models to improve the Group's understanding of risk exposures and enhance the efficiency of capital deployment.

The Group manages its investments in two broad asset categories: funds supporting insurance and reinsurance transactions ("Reinsurance Funds") and funds contributed by shareholders, debt and retained earnings ("Capital Funds"). Investment allocation is conservative with a strong emphasis on diversified, high quality, predominantly publicly-traded fixed maturity securities. Consistent with this policy, the investment strategy is to match fixed income assets to underlying insurance liabilities (where prudent to do so), to control the risk of credit loss or impairment within the resulting investment portfolio, and to maximize risk adjusted returns.



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**5. FINANCIAL RISK MANAGEMENT (Continued)**

**Risk management framework (continued)**

The investment guidelines for Reinsurance Funds call for preservation of assets first, followed by liquidity and duration criteria — resulting in a conservative asset portfolio invested predominately in high quality investment grade government and corporate bonds. The asset duration and projected cash flows of the portfolio is managed such that it corresponds to the claims and claims adjustment expenses and investment contract liabilities.

The investment guidelines for Capital Funds also call for protection of assets first, but with flexibility to take on additional credit risk and market risk to enhance investment returns over a longer time horizon. Capital Funds are invested in four broad asset types: investment grade securities, non-investment grade securities, alternative assets and equities. When appropriate, the investment guidelines allow for the use of financial futures and options, foreign exchange contracts and other derivatives to manage exposure to interest rates, currencies, credit risk and duration.

The Group establishes specific asset portfolios for certain major transactions or blocks of business to fund its liabilities within acceptable levels of risk. Objectives for effective duration, yield curve sensitivity, liquidity, asset sector concentration and credit quality are established. The estimates used in determining the approximate amounts and timing of claims payments to clients are regularly re-evaluated. Many of these estimates are inherently subjective and could impact the Group's ability to achieve its asset/liability management goals and objectives.

**Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of the Group's assets, the amount of its liabilities and/or the Group's income. Market risk arises in the Group due to fluctuations in the value of liabilities and the value of investments held. The Group is exposed to market risk on all of its financial assets and its discounted liabilities.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The nature of the Group's exposures to market risks and its objectives, policies and processes for managing that risk have not changed significantly from the prior year.

*(i) Interest Rate Risk*

Interest rate risk arises primarily from the Group's investment in fixed maturities and from discounted claims and claim adjustment expenses. Interest rate risk is the exposure to the effects of fluctuations in the prevailing levels of market interest rates on the Group's financial position and cash flows.

The Group manages its interest rate risk by matching, where possible, the duration and profile of assets and liabilities to minimize the impact of mismatches between the value of assets and liabilities from interest rate movements. The Group monitors its interest rate risk exposure through periodic reviews of the asset and liability position.

The nature of the Group's exposures to interest rate risk and its objectives, policies and processes for managing interest rate risk have not changed significantly from the prior year.

A +100 basis point parallel shift in the yield curves, assuming all other variables remain unchanged, would increase income before taxes by \$12,798 (2015 — \$12,447 increase; 2014 — \$15,340 increase). A –100 basis point parallel shift in the yield curves, assuming all other variables remain unchanged, would decrease income before taxes by \$13,176 (2015 — \$15,327 decrease; 2014 — \$16,995 decrease). A +100 basis point parallel shift in the yield curves, assuming all other variables remain unchanged, would increase shareholder's equity by \$12,330 (2015 — \$11,113; 2014 — \$13,481). A –100 basis points shift would decrease shareholder's equity by \$12,709 (2015 — \$13,933; 2014 — \$15,038).

This shift in the yield curves would have the following impact on the Group's financial assets and liabilities:

	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2014</u>
	+100bps	–100bps	+100bps	–100bps	+100bps	–100bps
Fixed maturities . . . . .	\$ (4,706)	\$ 5,546	\$ (6,564)	\$ 8,028	\$ (8,167)	\$ 9,987
Structured insurance assets . . . . .	(492)	536	(385)	419	(434)	472
Claims and claims adjustment expenses . . . . .	(17,528)	18,791	(18,062)	22,379	(22,082)	25,497

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**5. FINANCIAL RISK MANAGEMENT (Continued)**

**Market risk (continued)**

*(ii) Currency Risk*

The Group operates primarily in Europe and the US and is therefore exposed to currency risk arising mainly from fluctuations in exchange rates of the Euro against the US dollar. Due to its previous operations in the UK, the Group is also exposed to currency risk arising from fluctuations in exchange rates of the Great Britain Pound (“GBP”) against the US dollar.

The foreign currency positions are monitored quarterly and the Group uses currency hedges to manage foreign exchange risks where a material unmatched foreign exchange position exists. As at December 31, 2016, the significant mismatch position in Euro was hedged by a forward currency exchange contract.

The Group is exposed to exchange rate movements as consolidated shareholder’s equity is expressed in US dollars. This aspect of currency risk is monitored and managed by the Audit and Risk Committee.

The following tables summarize the carrying value of total assets and total liabilities categorized by major currency:

<b>At December 31, 2016</b>	<b>GBP</b>	<b>EURO</b>	<b>Other</b>	<b>Total</b>	<b>US \$</b>	<b>Total</b>
Total assets . . . . .	\$932	\$51,033	\$283	\$52,248	\$66,434	\$118,682
Total liabilities . . . . .	4	57,979	62	58,045	22,325	80,370
Net assets . . . . .	<u>\$928</u>	<u>\$(6,946)</u>	<u>\$221</u>	<u>\$(5,797)</u>	<u>\$44,109</u>	<u>\$ 38,312</u>
<b>At December 31, 2015</b>	<b>GBP</b>	<b>EURO</b>	<b>Other</b>	<b>Total</b>	<b>US \$</b>	<b>Total</b>
Total assets . . . . .	\$1,361	\$ 46,978	\$364	\$48,703	\$93,967	\$142,670
Total liabilities . . . . .	121	58,561	7	58,689	43,512	102,201
Net assets . . . . .	<u>\$1,240</u>	<u>\$(11,583)</u>	<u>\$357</u>	<u>\$(9,986)</u>	<u>\$50,455</u>	<u>\$ 40,469</u>

The assets and liabilities above were translated at exchange rates at the reporting date and are stated after taking into account the effect of forward currency exchange contracts.

The nature of the Group’s exposures to currency risk and its objectives, policies and processes for managing that risk have not changed significantly from the prior year.

*(iii) Price Risk*

The Group may hold equities which are subject to price movements. This exposure benefits shareholders through the enhanced longer term returns on equities compared with debt securities.

The nature of the Group’s exposures to price risk and its objectives, policies and processes for managing that risk have not changed significantly from the prior year.

**Credit Risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Consolidated Statements of Financial Position, including cash and investments, funds held by ceding companies, premiums and other reinsurance balances receivable and reinsurers’ share of claims and claims adjustment expenses. The nature of the Group’s exposure to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year. Management monitors the exposure to credit risk on an ongoing basis.

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**5. FINANCIAL RISK MANAGEMENT (Continued)**

**Credit Risk (continued)**

Cash and short-term investments are placed with financial institutions of a high credit quality. The Group manages its credit risk in respect of debt securities by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty or, where a rating is not available by assigning an internal rating equivalent based on market comparables for the counterparty or based on the collateral supporting the counterparty risk.

For structured insurance assets, the credit exposure was minimized through credit reviews performed as part of the underwriting process and the requirement for collateral to be provided on the amounts due to the Group wherever possible. The Group deals with investment grade counterparties on the long-term care commission business mentioned in Note 2(g)(ii). For this business, the Company takes on the credit risk of the insurance carriers who have the ultimate payment obligation. The majority of these insurance carriers have AM Best long term issuer credit ratings of A or better.

Premiums and other reinsurance balances receivable, funds held by ceding companies, investment contract assets and the reinsurers' share of claims and claims adjustment expenses are carefully monitored with reference to the credit quality of the broker or ceding company and an impairment allowance is made if deemed appropriate. No new brokers or intermediaries were transacted within 2016. Therefore, the Group's credit risk in respect of premiums and other insurance balances receivable principally arises from relationships with the insureds.

At the end of 2016, there are only a few transactions with remaining reinsurance protection in force. At December 31, 2016, the Group has not booked any reinsurance recoverable in respect of these transactions.

The following tables provide information regarding the credit risk exposure of the Group by classifying assets according to counterparty credit ratings (primary rating sources: Moody's Investor Services or Standard & Poor's or where a rating is not available by assigning an internal rating equivalent based on market comparables for the counterparty or based on the collateral supporting the counterparty risk). These amounts represent the maximum credit risk exposure.

<u>At December 31, 2016</u>	<u>AAA/Aaa</u>	<u>AA/Aa</u>	<u>A</u>	<u>BBB/Baa and Below</u>	<u>Not rated</u>	<u>Total</u>
Total cash and investments . . . . .	\$80,250	\$10,994	\$19,145	\$7,174	\$ 31	\$117,594
Funds held by ceding companies . . . . .	—	—	—	—	302	302
Premiums and other reinsurance balances receivable . . . . .	—	—	—	—	136	136
<b>BBB/Baa and Below</b>						
<u>At December 31, 2015</u>	<u>AAA/Aaa</u>	<u>AA/Aa</u>	<u>A</u>	<u>BBB/Baa and Below</u>	<u>Not rated</u>	<u>Total</u>
Total cash and investments . . . . .	\$76,847	\$10,179	\$18,050	\$32,443	\$1,764	\$139,283
Funds held by ceding companies . . . . .	—	—	—	—	962	962
Premiums and other reinsurance balances receivable . . . . .	—	—	—	—	1,526	1,526

Premiums and other reinsurance balances receivable and funds withheld by ceding companies amount to \$438 (2015 — \$2,488). These relate to the specialty products written and are often with counterparties that do not have credit quality ratings. Credit risk is continuously monitored by experienced staff. Many of the contracts written include the right to offset amounts receivable against claims and other amounts payable. In addition, the Group has obtained a letter of credit of \$100 (2015 — \$100) from one counterparty to collateralize some of these and potential future receivables. The Group establishes an allowance for impairment of premiums and other reinsurance balances receivable, on the basis of a process that considers both the obligors' inability and unwillingness to pay and is calculated on an individual basis.

The Group monitors concentrations of exposures by industry sector and geographic location of the counterparty as well as by individual counterparties. There are no significant industry concentrations at December 31, 2016.

The Group has premiums and other reinsurance balances receivable, that include amounts that are past due and are recorded net of an allowance for impairment of \$761 (2015 — \$761) based on management's estimate given the age and circumstances surrounding the past due amounts.

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**5. FINANCIAL RISK MANAGEMENT (Continued)**

An aged analysis of the carrying amounts of these receivables is presented below:

<u>At December 31, 2016</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>More than 90 days</u>	<u>Total</u>
Premiums and other reinsurance balances receivable . . . . .	\$36	\$—	\$—	\$100	\$136

<u>At December 31, 2015</u>	<u>Current</u>	<u>31 - 60 Days</u>	<u>61 - 90 Days</u>	<u>More than 90 days</u>	<u>Total</u>
Premiums and other reinsurance balances receivable . . . . .	\$1,022	\$—	\$—	\$504	\$1,526

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial and insurance liabilities. The Group is exposed to daily calls on its available cash resources mainly from claims arising from insurance and investment contracts. Liquidity risk may arise from a number of potential areas including, for example, duration mismatch between assets and liabilities

The nature of the Group's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

The Group manages its liquidity risk through its investment in high quality, highly liquid assets and its asset liability matching processes. The long-tailed nature of much of the Group's reinsurance business also reduces the likelihood of sudden or unexpected spikes in claim payment requirements. Stress analyses conducted by the Group show that its liquidity position is sufficiently robust to meet its potential collateralization obligations under its Letter of Credit facility and reinsurance transactions under "Events of Default" assumptions.

Cash and cash equivalents and short term deposits amounting to \$48,137 (2015 — \$34,148) have been pledged under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Group.

The following tables analyze the undiscounted value of the financial and insurance assets and liabilities of the Group by maturity based on the remaining period at the statement of financial position date to their contractual repayment dates. For claims and claims adjustment expenses, mortgage backed securities, asset backed securities and collateralized debt obligations, the contractual maturity date is the estimated date on which the contractually required cash flows will occur.

<u>At December 31, 2016</u>	<u>Up to 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>Over 10 Years</u>	<u>Total</u>
<b>Assets</b>					
Total cash and investments . . . . .	\$71,297	\$13,099	\$11,636	\$21,562	\$117,594
Funds held by ceding companies . . . . .	302	—	—	—	302
Tax assets . . . . .	431	—	—	—	431
Premiums and other reinsurance balances receivable . . . . .	136	—	—	—	136
<b>Liabilities</b>					
Claims and claims adjustment expenses . . . . .	\$14,542	\$36,989	\$19,000	\$ 1,357	\$ 71,888
Investment contract liabilities . . . . .	1,023	1,023	—	—	2,046
Reinsurance balances payable . . . . .	2,327	—	—	—	2,327
Accounts payable and other liabilities . . . . .	3,807	195	—	—	4,002
Derivative liabilities . . . . .	207	—	—	—	207

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**5. FINANCIAL RISK MANAGEMENT (Continued)**

**Liquidity risk (continued)**

<u>At December 31, 2015</u>	<u>Up to 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>Over 10 Years</u>	<u>Total</u>
<b>Assets</b>					
Total cash and investments . . . . .	\$62,732	\$39,421	\$11,340	\$25,790	\$139,283
Funds held by ceding companies . . . . .	962	—	—	—	962
Tax assets . . . . .	657	—	—	—	657
Premiums and other reinsurance balances receivable . . . . .	1,526	—	—	—	1,526
<b>Liabilities</b>					
Claims and claims adjustment expenses . . . . .	\$22,846	\$44,799	\$18,221	\$ 1,402	\$ 87,268
Investment contract liabilities . . . . .	536	1,473	—	—	2,009
Reinsurance balances payable . . . . .	6,481	—	—	—	6,481
Accounts payable and other liabilities . . . . .	966	653	—	—	1,619
Derivative liabilities . . . . .	858	—	—	—	858
Tax liabilities . . . . .	18	—	—	—	18
Loan payable . . . . .	5,000	—	—	—	5,000

Claims and claims adjustment expenses are stated gross of discount and represent the estimated duration.

**Capital management**

The Group's sources of capital are its shareholder's equity and loans payable. The Group reviews its capital structure on a regular basis to ensure an optimal capital structure in keeping with all regulatory requirements in order to maximize returns to its shareholder. The Group also monitors its capital adequacy by reference to internal capital assessment models. There have been no material changes in the Group's management of capital during the year.

The significant entities subject to externally imposed regulatory capital requirements are Imagine Insurance Company Limited ("IICL") in Barbados and Imagine International Reinsurance dac ("IIRD") in Ireland. These entities are required to maintain minimum capital totaling \$3,920 (2015 — \$4,044). This amount is restricted from potential dividend payments.

In addition, the Group's letter of credit facilities require that the Group maintains a minimum level of adjusted tangible net worth. As of December 31, 2016, tangible net worth was required to be \$10,000 (2015 — \$15,000). Actual tangible net worth was \$41,974 (2015 — \$40,404).

IICL has provided a Net Worth Maintenance Agreement ("NWMA") to IIRD. Under the NWMA, IICL, subject to certain conditions as set out in the NWMA, agrees that it shall cause IIRD to maintain a minimum shareholder's funds sufficient to satisfy IIRD's solvency requirements calculated under applicable Irish statutory regulations and accounting principles. At the end of the year IIRD was not reliant on IICL for support under the NWMA. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the year.

**6. RESTRUCTURING COSTS**

In 2008, the Group announced that it had ceased writing new business. As a result, those fixed assets which can no longer be deployed have been written off, and provisions have been made for severance costs related to employees whose positions may become redundant. The provision has been established based on the Group's business plans. The movement in the severance provision for the year is as follows:

	<u>Severance</u>
Balance at December 31, 2015 . . . . .	\$ 398
Additional accrual . . . . .	64
Adjustments for over accruals . . . . .	(125)
Amounts paid . . . . .	(14)
Adjustment for foreign exchange movements . . . . .	4
Balance at December 31, 2016 . . . . .	<u>\$ 327</u>

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**7. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**

Cash and cash equivalents and short-term investments amounting to \$48,137 (2015 — \$34,148) have been pledged under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Group.

**8. FIXED MATURITIES**

Fixed maturities include \$15,561 (2015 — \$43,957) of available for sale securities and \$21,562 (2015 — \$25,791) designated as “at fair value through profit or loss” securities. The amortized cost and fair value of investments in fixed maturities are as follows:

<u>At December 31, 2016</u>	<u>Amortized Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
U.S. Government and agency securities . . . . .	\$ 675	\$ 38	\$ —	\$ 713
U.S. corporate securities . . . . .	14,353	138	(27)	14,464
Mortgage backed securities . . . . .	380	6	(33)	353
Asset backed securities . . . . .	—	31	—	31
Collateralized debt obligations . . . . .	44	—	(44)	—
	<u>\$15,452</u>	<u>\$ 213</u>	<u>\$(104)</u>	<u>\$15,561</u>
Non-U.S. Government securities designated as fair value through profit or loss	6,773	14,789	—	21,562
	<u>\$22,225</u>	<u>\$15,002</u>	<u>\$(104)</u>	<u>\$37,123</u>
<u>At December 31, 2015</u>	<u>Amortized Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>
U.S. Government and agency securities . . . . .	\$ 667	\$ 67	\$ —	\$ 734
U.S. corporate securities . . . . .	41,567	324	(1,282)	40,609
Mortgage backed securities . . . . .	615	237	(2)	850
Asset backed securities . . . . .	—	1,764	—	1,764
Collateralized debt obligations . . . . .	44	—	(44)	—
	<u>\$42,893</u>	<u>\$ 2,392</u>	<u>\$(1,328)</u>	<u>\$43,957</u>
Non-U. S Government securities designated as fair value through profit or loss	8,937	16,854	—	25,791
	<u>\$51,830</u>	<u>\$19,246</u>	<u>\$(1,328)</u>	<u>\$69,748</u>

Proceeds from the sale of investments in fixed maturities during the year amounted to \$36,818 (2015 — \$27,356; 2014 — \$110,744). Gross realized gains of \$6,110 (2015 — \$5,185; \$2,151) and gross realized losses of \$977 (2015 — \$466; 2014 — \$158) from these sales have been included within net investment income in the Consolidated Statements of Profit or Loss and OCI. Net investment income includes impairment losses on available for sale securities of nil (2015 — \$145; 2014 — \$108). (See Note 16).

The following table summarizes the composition of the fair value of available for sale and “at fair value through profit or loss” fixed maturities by rating (primary rating source: Moody’s Investors Service).

	<u>2016</u>		<u>2015</u>	
	<u>Fair Value</u>	<u>%</u>	<u>Fair Value</u>	<u>%</u>
Aaa, Treasury . . . . .	\$11,279	30.4	\$16,346	23.4
Aa . . . . .	10,994	29.6	10,179	14.6
A . . . . .	7,881	21.2	9,015	13.0
Baa . . . . .	5,589	15.1	26,101	37.4
Below Baa . . . . .	1,349	3.6	6,343	9.1
Not rated . . . . .	31	0.1	1,764	2.5
	<u>\$37,123</u>	<u>100.0</u>	<u>\$69,748</u>	<u>100.0</u>

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**8. FIXED MATURITIES (Continued)**

In the normal course of insurance and reinsurance operations, the Group must secure its obligations under certain insurance and reinsurance contracts by collateralizing them with letters of credit or trust arrangements. These trusts and letters of credit may, in turn, be secured by the Group's fixed maturities. At December 31, 2016, the Group pledged \$31,413 (2015 — \$43,933) of its fixed maturities for insurance and reinsurance trust arrangements.

**9. STRUCTURED INSURANCE ASSETS**

Structured insurance assets of \$11,254 (2015 — \$9,035) are designated as "at fair value through profit or loss".

The Group has entered into contractual arrangements to purchase various assignments of the right to collect commissions from different portfolios of long-term care insurance policies issued by several investment grade insurance carriers. This commission finance investment has been designated as "at fair value through profit or loss". Under these arrangements, the commissions are paid into separate trusts, which then distribute the amounts due to the Group on a pre-agreed formula based on the amount of commissions collected net of the expenses of the trusts. At December 31, 2016, the outstanding balance amounted to \$11,254 (2015 — \$9,035) which is carried as a financial asset at fair value through profit or loss. This investment earns commission income at varying rates of interest per annum. The commission income for the year amounted to \$1,513 (2015 — \$1,927; 2014 — \$2,274), which has been recorded within net investment income (See Note 16).

The fair value of this investment is based on discounting the expected future commission flows using a U.S. Treasury yield curve adjusted for a credit margin reflecting the insurance carriers' credit risk of making these estimated commission payments over time. The Group's maximum exposure to credit risk on the commissions purchased is its carrying value of \$11,254 (2015 — \$9,035).

**10. FAIR VALUE HIERARCHY**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the assets that are not based on observable market data (unobservable inputs). In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and considers factors specific to the investment.

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed maturities . . . . .	\$—	\$36,739	\$ 384	\$37,123
Structured insurance assets . . . . .	—	—	11,254	11,254
	<u>\$—</u>	<u>\$36,739</u>	<u>\$11,638</u>	<u>\$48,377</u>
<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed maturities . . . . .	\$—	\$67,134	\$ 2,614	\$69,748
Structured insurance assets . . . . .	—	—	9,035	9,035
	<u>\$—</u>	<u>\$67,134</u>	<u>\$11,649</u>	<u>\$78,783</u>

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**10. FAIR VALUE HIERARCHY (Continued)**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy:

	<u>2016</u>
Balance at January 1, 2016 . . . . .	\$11,649
Unrealized losses . . . . .	(2,229)
Amortization of premium . . . . .	2,218
Balance as at December 31, 2016 . . . . .	<u>\$11,638</u>
	<u>2015</u>
Balance at January 1, 2015 . . . . .	\$13,115
Unrealized losses . . . . .	(485)
Amortization of premium . . . . .	(981)
Balance as at December 31, 2015 . . . . .	<u>\$11,649</u>

The following tables present quantitative information about the significant fair value inputs utilized by the Company for Level 3 assets:

	<u>Fair value as of December 31, 2016</u>	<u>Valuation technique</u>	<u>Unobservable input(s)</u>	<u>Range</u>
Fixed maturities . . . . .	\$ 384	Dealer quotes	n/a <sup>(1)</sup>	n/a
Structured insurance assets . . . . .	\$11,254	Discounted cash flow	Discount rate load <sup>(2)</sup> Mortality rates <sup>(3)</sup> Waiver rates <sup>(4)</sup> Lapse rates <sup>(5)</sup>	0.5% – 6.0% n/a 0.3% – 28.6% 1.25%
	<u>Fair value as of December 31, 2015</u>	<u>Valuation technique</u>	<u>Unobservable input(s)</u>	<u>Range</u>
Fixed maturities . . . . .	\$2,614	Dealer quotes	n/a <sup>(1)</sup>	n/a
Structured insurance assets . . . . .	\$9,035	Discounted cash flow	Discount rate load <sup>(2)</sup> Mortality rates <sup>(3)</sup> Waiver rates <sup>(4)</sup> Lapse rates <sup>(5)</sup>	0.5% – 6.0% n/a 0.3% – 28.6% 3%

(1) The fair value of fixed maturities (i.e. holdings of asset backed securities, mortgage backed securities and collateralized debt obligations holdings) is determined using International Data Corporation's valuation methodology and obtained by Asset Managers responsible for managing these assets. Consequently, quantitative unobservable inputs are not developed by the Company when measuring fair value.

(2) The discount rate used by the Company is comprised of three components:

- Risk free rate: based on US Treasury strip rates that are quoted observable fair value inputs.
- Credit risk: based on counterparty credit default swap rates that are quoted observable fair value inputs.
- Discount rate load: is the risk premium applied to projected cash flows and increases over time. A decrease in discount rate load increases estimated fair value.

(3) Mortality rates are derived from Annuity 2000 mortality tables developed by the Society of Actuaries in the United States.

(4) Waiver rates refer to the percentage of policyholders in receipt of benefit and premiums are waived. These rates vary by age and gender and are based on long term care industry data.

(5) Lapse rates are the percentage of policyholders electing to cancel their policy and are based on long term care industry data.



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**10. FAIR VALUE HIERARCHY (Continued)**

The Level 3 assets consist principally of the purchased commission rights transaction mentioned in Note 2 g) (ii) which includes a description of the proprietary discounted cash flow valuation methodology used by the Company in the absence of an active market. The key unobservable input to this valuation model is the future lapse risk assumption and is determined by management judgement upon considering the historic lapse experience of the transaction itself supplemented by data and information from sources such as the Society of Actuaries Long Term Care Studies. Assistance from external actuarial consultants is also sought, as appropriate. The sensitivity of the valuation was tested with respect to a change of +/- 1% in the future lapse rate assumption, resulting in an average valuation increase(decrease) of \$550 (2015: \$482) or approximately 4.9% (2015: 5.3%).

**11. OTHER ASSETS**

Other assets include the following:

	<b>2016</b>	<b>2015</b>
Prepaid expenses . . . . .	\$ 4	\$ 8
Fixed assets . . . . .	56	55
Miscellaneous assets . . . . .	159	179
	<b>\$219</b>	<b>\$242</b>

**12. ACCOUNTS PAYABLE AND OTHER LIABILITIES**

Accounts payable and other liabilities consist of:

	<b>2016</b>	<b>2015</b>
Long term incentive plan [note 17 (iv)] . . . . .	\$2,777	\$ —
Severance . . . . .	327	398
Miscellaneous liabilities . . . . .	898	1,221
	<b>\$4,002</b>	<b>\$1,619</b>

**13. CLAIMS AND CLAIMS ADJUSTMENT EXPENSES AND INVESTMENT CONTRACT LIABILITIES**

*Overview*

The assumptions employed by the Group in the estimation of its insurance and reinsurance related assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of all of its insurance and reinsurance contracts, including both contracts under which the Group accepts significant insurance risk (“insurance contracts”) and those which do not contain significant insurance risk but may contain financial risk (“investment contracts”). The principles governing the setting of reserves are covered by the Group’s Reserving Policy which is subject to an annual review and ratification process by the Audit and Risk Committee and the Board of Directors. The reserving process includes initial analysis and reserving projection by the reserving actuaries in the Group’s Risk Management team, focusing on the structure of the contracts, the development of the contracts since inception and latest available information. Preliminary results are shared with the appropriate personnel of the Group to ensure that the most comprehensive set of information possible is incorporated into the reserving process. These personnel may include the claims and finance professionals, external professional advisors and, as appropriate, the senior management team. Following this comprehensive process, the Chief Risk Officer recommends the appropriate level of reserves for claims and claims adjustment expenses and investment contract liabilities to the Audit and Risk Committee of the Board of Directors for adoption.

Setting appropriate reserves for claims and claims adjustment expenses is an inherently uncertain process. Claims reserves represent the estimate, at a given point in time, of the ultimate settlement and adjustment costs of losses incurred less amounts already paid. Inherent in the estimate of ultimate claims are such factors as expected trends in claim frequency, claim severity, the occurrence of catastrophic events, the timing of claim payments and interest yields, some or all of which could vary significantly as claims develop and are settled. The uncertainty in loss estimation can be particularly pronounced for long-tail lines where information typically emerges over time. In the overall reserve setting process, provisions for economic inflation and changes in the social and legal environment are considered.

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**13. CLAIMS AND CLAIMS ADJUSTMENT EXPENSES AND INVESTMENT CONTRACT LIABILITIES (Continued)**

The uncertainty inherent in the reserving process tends to be even greater for reinsurance companies compared to primary insurance companies. This is mainly due to the time lag in reporting information from the insurer to the reinsurer and differing reserving practices among ceding companies. As a result, actual claims and claims adjustment expenses may deviate, perhaps materially, from the ultimate costs reflected in the Group's current reserves for claims and claims adjustment expenses and investment contract liabilities.

The movement in claims and claims adjustment expenses for the year ended December 31, 2016 is as follows:

	<u>2016 Gross</u>	<u>2016 Reinsurance</u>	<u>2016 Net</u>
Claims and claims adjustment expenses at the beginning of year . . . . .	\$ 86,216	\$—	\$ 86,216
Add: reserves offset against funds held by ceding companies . . . . .	23,136	—	23,136
Gross claims and claims adjustment expenses at the beginning of the year . . . . .	<u>109,352</u>	<u>—</u>	<u>109,352</u>
<b>Add:</b>			
<i>Incurred losses:</i>			
Prior years . . . . .	4,268	—	4,268
Total incurred losses . . . . .	<u>4,268</u>	<u>—</u>	<u>4,268</u>
<b>Deduct:</b>			
<i>Losses and loss expenses paid related to:</i>			
Prior years . . . . .	(18,555)	—	(18,555)
Total paid losses . . . . .	<u>(18,555)</u>	<u>—</u>	<u>(18,555)</u>
<b>Add (Deduct):</b>			
Amounts transferred on novation . . . . .	(23,453)	—	(23,453)
Foreign exchange differences . . . . .	176	—	176
Claims and claims adjustment expenses at the end of year . . . . .	71,788	—	71,788
Less: reserves offset against funds held by ceding companies . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Claims and claims adjustment expenses at the end of year . . . . .	<u>\$ 71,788</u>	<u>\$—</u>	<u>\$ 71,788</u>

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**13. CLAIMS AND CLAIMS ADJUSTMENT EXPENSES AND INVESTMENT CONTRACT LIABILITIES (Continued)**

The movement in claims and claim adjustment expenses for the year ended December 31, 2015 is as follows:

	<u>2015 Gross</u>	<u>2015 Reinsurance</u>	<u>2015 Net</u>
Claims and claims adjustment expenses at the beginning of year . . . . .	\$126,565	\$—	\$126,565
Add: reserves offset against funds held by ceding companies . . . . .	22,628	—	22,628
Gross claims and claims adjustment expenses at the beginning of the year . . . . .	<u>149,193</u>	<u>—</u>	<u>149,193</u>
<b>Add:</b>			
<i>Incurred losses:</i>			
Prior years . . . . .	(13,102)	—	(13,102)
Total incurred losses . . . . .	<u>(13,102)</u>	<u>—</u>	<u>(13,102)</u>
<b>Deduct:</b>			
<i>Losses and loss expenses paid related to:</i>			
Prior years . . . . .	(16,415)	—	(16,415)
Total paid losses . . . . .	<u>(16,415)</u>	<u>—</u>	<u>(16,415)</u>
<b>Add (Deduct):</b>			
Foreign exchange differences . . . . .	(10,323)	—	(10,323)
Claims and claims adjustment expenses at the end of year . . . . .	109,353	—	109,353
Less: reserves offset against funds held by ceding companies . . . . .	(23,137)	—	(23,137)
Claims and claims adjustment expenses at the end of year . . . . .	<u>\$ 86,216</u>	<u>\$—</u>	<u>\$ 86,216</u>

***Overall reserving basis***

Provision is made as at the statement of financial position date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related allocated claims handling expenses, less amounts already paid. These reserve amounts are calculated in accordance with the Group's Reserving Policy.

***Data***

The sources of data used as inputs for the assumptions surrounding claims reserving includes data sources internal to the Group, data received per contractual agreements from counterparties that the Group reinsures, data provided by various professional advisors engaged by the Group and publicly available industry and market observable data. The reserving assumptions are verified to ensure that they are consistent with observable market information or other published information where possible or appropriate. For some transactions where sufficient claims or premium data is not available with which to make a reliable estimate of claims development, such as in the case where the insured or reinsured party is a start-up entity, prudent assumptions that are in line with the assumptions used in the Group's underlying pricing of the insurance or reinsurance contract are typically utilized.

***Reserves for claims and claims adjustment expenses***

Claims reserves fall into two categories: reserves for reported claims and claims adjustment expenses ("Case Reserves") and reserves for IBNR.

***Case Reserves***

Upon receipt of a notice of claim from an insured or reinsured party, the Group establishes case reserves for the estimated amount of the ultimate settlement. These Case Reserves are usually determined by considering the amount of reserves reported by the insured or reinsured party and may include estimated legal and other claims adjustment expenses where appropriate. Case Reserves may be amended, as deemed necessary, following the Group's internal review processes which utilizes the Group's claims advisors, third party

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**13. CLAIMS AND CLAIMS ADJUSTMENT EXPENSES AND INVESTMENT CONTRACT LIABILITIES (Continued)**

*Overall reserving basis (continued)*

Reserves for claims and claims adjustment expenses (continued)

administrators (“TPAs”) and other professional advisors as required. Case Reserves may be assessed on a case-by-case and/or policy-by-policy basis with due regard to the circumstances of the claim, policy coverage, terms and conditions, information available from loss adjusters and historical experience with respect to the size of comparable claims. Case estimates are reviewed regularly and are updated as and when new information arises.

For the Group’s life business, Case Reserves represent an estimation of the future benefit payments to policyholders and are determined on a seriatim (policy by policy) basis for all underlying policies remaining in-force at the time of valuation. The actuarial present value of the future benefits for each policy is calculated using assumptions for take-up of embedded policyholder guarantees, expected future mortality and discount rates. These assumptions are reviewed regularly and revised where deemed necessary.

*IBNR*

The estimation of IBNR claims is generally subject to a greater degree of uncertainty than the estimates of claims already notified where more information is typically available. IBNR claims may often not be reported to the Group until many years after the occurrence of the underlying event giving rise to the claim.

These IBNR reserves include estimated legal and other claims adjustment expenses where appropriate. The Group calculates its IBNR reserves by using reference to the Group’s Reserving Policy and in doing so may utilize actuarial tools and techniques that rely on historical client-specific and industry loss data, pricing information and statistical models, as well as the Group’s own pricing analyses. The reserve analysis typically relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis to estimate the current liability for claims and claims adjustment expenses.

The key statistical methodologies used, which remain unchanged from prior years, are as follows:

- Expected loss ratio methods, which use the Group’s expectation of the loss ratio for a class of business or transaction;
- Benchmarking methods, which use the experience of comparable, more mature, classes of business and industry benchmarks to estimate the cost of claims;
- Stochastic methods which use probability distributions of losses to estimate the expected losses ceded to the Group; and
- Life annuity reserving methodologies, which determine the actuarial present value of expected future benefits.

The actual method or blend of methodologies used may vary by the accident year (or underwriting year) being considered, the class of insurance and/or reinsurance contracts and observed historical claims development.

To the extent that these methods use historical claims development information, they may assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methodologies described. Such reasons include:

- Economic, legal, political and social trends (for example, a difference in the expected level of inflation);
- Changes in the mix of insurance and/or reinsurance contracts incepted;
- Changes in the reporting time lag between the insured and the reinsured and the insurer and the reinsurer;
- Changes in the reserving processes and/or practices of the insured and/or reinsured; and
- The impact of large losses and catastrophes. Large claims are generally assessed separately and are measured on a case-by-case basis or projected separately in order to allow for the possible distorting effects on development and incidence of these large claims.

As the Group no longer has unearned premium, the claims provisions no longer include a reserve for unexpired risks.

Uncertainty

The reserve estimation uncertainties differ by class of business and/or type of transaction for a number of reasons, including differences in the:

- Terms and conditions of the underlying contracts;
- Complexity of claims;

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**13. CLAIMS AND CLAIMS ADJUSTMENT EXPENSES AND INVESTMENT CONTRACT LIABILITIES (Continued)**

*Overall reserving basis (continued)*

Uncertainty (continued)

- Severity of individual claims;
- Period between the occurrence and subsequent reporting of claims; and
- Length of time over which benefits are projected to be paid in the future.

As the estimation of the reserves for claims and claims adjustment expenses is an inherently uncertain process, quantitative techniques frequently have to be supplemented by professional and managerial judgment. In addition, trends that have affected the development of reserves in the past may not necessarily occur or continue to affect reserve development to the same degree in the future.

The Group's remaining P&C contracts with reserves of \$17,574 at December, 31 2016, which comprise case reserves of \$7,723 and IBNR of \$9,851 (2015: \$31,202; case reserves of \$14,573 and IBNR of \$16,629), are now very seasoned such that approximately 97% (2015: approximately 97%) of reported claims on these contracts are closed. As a result, the scope for deterioration in reserves is limited. The scope for deterioration is further limited by the fact that the one P&C contract with the largest reserves totaling \$4,239 (2015: two contracts with total balance of \$9,929) are reserved at the aggregate limit of liability, hence no deterioration on these contracts is possible.

The impact of the ten percent nominal increase in reserves is mitigated significantly by various contractual features such as per claim limits, aggregate limits of liability, loss corridors where claims costs are the responsibility of the reinsureds and sliding scale profit arrangements where increases in claims cost are partly offset by a reduction in profit commission payable to the reinsured.

The primary risks in respect of the closed block of deferred annuities with a guaranteed annuity conversion option are the rate of take-up of the guaranteed annuity option ("GAO") and future interest rates.

The sensitivity of the reserves was tested with respect to a change of +/- 1% in the GAO take-up rate, resulting in an average reserve increase (decrease) of \$792 (2015: \$995) or approximately 1.5% (2015:1.8%).

The sensitivity of the reserves was tested with respect to a +100 basis point parallel shift in the yield curves, assuming all other variables remain unchanged. The results are set out in the table below which also include the change in value of the assets held backing these reserves which have the effect of reducing the impact of reserve reductions or increased.

	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>
	+100bps	-100bps	+100bps	-100bps
Reserve Changes . . . . .	(17,528)	18,791	(18,062)	22,379
Asset Changes . . . . .	(4,238)	5,079	(5,230)	6,634
Overall Change . . . . .	(13,290)	13,712	(12,832)	15,746
as a % of Reserves . . . . .	(24.5)%	25.3%	(23.3)%	28.6%

Discounting of claims and claims adjustment reserves

The Group discounts its reserves for claims and claims adjustment expenses for life and annuity contracts.

**Key assumptions and sensitivities**

The reserving for each transaction incorporates assumptions which may well differ from one transaction or block/class of business to another. The assumptions that have the greatest effect on the measurement of the Group's reserves for claims and claims adjustment expenses and its reinsurers' share of claims and claims adjustment expenses as at year end 2016 are as follows:

Life business

The primary risks to the Group in respect of the closed block of deferred annuities with a guaranteed annuity conversion option are the rate of take-up of the guaranteed annuity option ("GAO") and future interest rates, both of which are inherently uncertain and may exhibit volatility.

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**13. CLAIMS AND CLAIMS ADJUSTMENT EXPENSES AND INVESTMENT CONTRACT LIABILITIES (Continued)**

**Key assumptions and sensitivities (continued)**

Long-tailed liability contracts

The Group has exposure to a number of primary and/ or excess long-tail liability type contracts with underlying exposures covering general and public liability, professional indemnity, workers' compensation and medical malpractice. These exposures typically have low frequency and high severity characteristics coupled with significant time lags for the emergence of actual claims activity. The reserving approach typically adopted for these transactions, particularly at the early development stages, is to use the pricing model assumptions as the basis for reserve assumptions. Deviations in actual experience from these assumptions are reflected in the quarterly reserving reviews carried out by the Group and may be significant depending on emerging experience.

**14. SHARE CAPITAL**

At December 31, 2016, the Group had an authorized share capital of 75,000,000 (2015 — 75,000,000) shares consisting of:

- a) 4,923,163 common shares (2015 — 4,923,163) with a par value of \$1 per share; and
- b) 70,076,837 (2015 — 70,076,837) undesignated shares with a par value of \$1 per share

The premium on the share repurchase in 2014 of \$435, presented in the Consolidated Statements of Changes in Equity, represents the difference between the net asset value of the Company at the end of 2013 and the book value of the shares repurchased in 2014.

At December 31, the issued and paid up share capital is as follows:

	<b>2016</b>	<b>2015</b>
<i>Common shares at a par value of \$1 per share:</i>		
4,923,163 (2015 — 4,923,163; 2014 — 4,923,163) common shares . . . . .	\$4,923	\$4,923

**15. LETTERS OF CREDIT**

Credit facility

Effective November 18, 2008 the Group entered into a new letter of credit facility (the "Credit Facility") with a major Canadian financial institution (the "Lender"). This facility was renewed on November 9, 2016. Under the new facility, the Lender has agreed to provide letters of credit on an unsecured basis with a total capacity of \$1,000 (2015 — \$6,000). Letters of credit under the Credit Facility mature 364 days from the date of issuance on an evergreen basis, meaning that they automatically renew each year unless utilized by the letter of credit beneficiary. Under the Credit Facility, the Group and/or certain of its subsidiaries must maintain certain covenants, including a minimum tangible net worth covenant. A breach of any of these covenants, or certain other events set out in the credit agreement, would result in an event of default, upon which the Group may be required to provide the appropriate collateral under the Credit Facility. As at December 31, 2016, one (1) letter of credit totaling \$218 (2015 — four totaling \$5,726) have been issued. The Group is in compliance with all of the covenants under this Credit Facility.

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**16. NET INVESTMENT INCOME**

Net investment income for the years ended December 31, 2016, 2015 and 2014 comprised the following:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Financial investments available for sale			
Interest income . . . . .	\$1,663	\$ 2,260	\$ 2,599
Investment income on funds held by ceding companies . . . . .	316	509	999
Commission income on assets at fair value through profit or loss . . . . .	1,513	1,927	2,274
Realized gains (losses) on financial investments available for sale			
Realized gains . . . . .	6,110	5,185	2,151
Realized losses . . . . .	(977)	(466)	(158)
Net unrealized (losses) gains on assets at fair value through profit or loss . . . . .	4	(4,911)	13,419
Impairment losses on available for sale securities . . . . .	—	(145)	(108)
Investment management expenses . . . . .	(101)	(134)	(164)
	<u>\$8,528</u>	<u>\$ 4,225</u>	<u>\$21,012</u>

**17. COMPENSATION EXPENSES**

Included within operating expenses are the following categories of compensation expenses:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Salaries and bonus . . . . .	\$1,205	\$1,271	\$1,507
Long term incentive plan . . . . .	2,777	—	—
Contributions to defined contribution retirement plans . . . . .	48	33	39
Severance . . . . .	15	18	223
Other employee benefits . . . . .	223	208	—
	<u>\$4,268</u>	<u>\$1,530</u>	<u>\$1,769</u>

(i) As at December 31, 2016, there were 7 employees (2015 — 8; 2014 — 8) of the Group.

(ii) Compensation plans

The Group has established compensation plans which are offered selectively to employees of the Group based on the terms of the individual employee's employment contract, job responsibilities, employment location, applicable local employment and tax regulations and other factors as may be established by the Board of Directors from time to time.

(iii) Defined contribution retirement plans

The Group also sponsors various defined contribution retirement plans which are open to all employees. The Group makes a contribution in cash to these retirement plans for each participating employee. These retirement plans also allow eligible participants to make voluntary contributions pursuant to their respective jurisdictions.

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**17. COMPENSATION EXPENSES (Continued)**

(iv) Key management benefits

Included within the personnel expenses above are key management personnel compensation costs. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Company. These costs are as follows:

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Short term employee benefits . . . . .	\$ 824	\$801	\$921
Long term incentive plan . . . . .	2,221	—	—
	<b>\$3,045</b>	<b>\$801</b>	<b>\$921</b>

The long term incentive plan was put in place on January 1, 2015 for certain designated senior executives. The purpose of the plan is to advance the interests of the Group by promoting the alignment of the interests of the senior executives and the shareholders of the Group and to encourage these executives to remain with the Group until the completion of the wind-up of the Group. The plan provides the senior executives with a financial incentive to maximize shareholder value. The plan has a four-year vesting period and a ten-year exercise period with accelerated vesting and exercise upon disposal of the Group within the four years. At exercise, the plan makes a payout to senior executives of twenty per cent of the Group's enterprise value in excess of a benchmark notional investment escalating at five percent compound per annum from inception of the plan.

**18. TAXATION**

Imagine Insurance Company Limited is registered as a Qualifying Insurance Company ("QIC") under the Insurance Act 1996-32 of Barbados (the "Act"). Under the Act, this company is, as a QIC, liable for tax on its taxable income at a rate of 25%. However, as its income is exclusively earned from foreign insurance business, the company is also eligible for a tax credit of 93%, the maximum allowance under Section 12H of the Barbados Income Tax Act, Cap 73. This has resulted in a net effective tax rate of 1.75%.

Under current Bermuda law, the group and its subsidiaries domiciled in Bermuda are not required to pay any corporate income taxes in Bermuda on either income or capital gains. In the event of any such taxes being imposed, the Group has received undertakings from the Minister of Finance in Bermuda that they will be exempt from taxation until 2035.

Imagine International Reinsurance dac is subject to a corporate tax rate of 12.5% in Ireland. During 2015, the Group disposed of its subsidiary in Luxembourg, which was subject to a corporation tax rate of 29.22%.

Corporation tax expense comprises:

<b>Current tax</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Under provision in prior years . . . . .	\$ 5	\$ 254	\$ 247
Deferred tax charge . . . . .	\$ 220	\$ —	\$ —
Corporation tax expense . . . . .	<b>\$ 225</b>	<b>\$ 254</b>	<b>\$ 247</b>
Reconciliation of taxes calculated at the applicable tax rate with corporation tax expense:			
(Loss) Income before corporation taxes . . . . .	\$(994)	\$15,490	\$(9,464)
Tax calculated at a tax rate of 0% (2015 — 0%; 2014 — 0%) . . . . .	—	—	—
Effect of different tax rates in other countries . . . . .	235	1,351	(2,472)
Expenses, etc. not deductible for tax purposes . . . . .	(601)	1,545	(80)
(Over) Under provision in prior years' current tax . . . . .	(205)	15	280
Under (Over) provision in prior years' deferred tax . . . . .	241	(66)	246
Adjustment for net foreign currency earnings of QICs . . . . .	555	(2,591)	2,273
Corporation tax expense . . . . .	<b>\$ 225</b>	<b>\$ 254</b>	<b>\$ 247</b>



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**19. DEFERRED TAXES**

The movement on net deferred tax assets is as follows:

	<u>2016</u>	<u>2015</u>
At beginning of year . . . . .	\$ 318	\$ 568
Income tax reported to net income . . . . .	(225)	(247)
Income tax reported to other comprehensive income . . . . .	17	(3)
At end of year . . . . .	<u>\$ 110</u>	<u>\$ 318</u>
The net deferred tax account is comprised as follows:		
Deferred tax assets . . . . .	\$ 110	\$(336)
Deferred tax liabilities . . . . .	—	18
Net deferred tax account . . . . .	<u>\$ 110</u>	<u>\$ 318</u>
Deferred tax assets consist of the following items:		
<b>Deferred tax assets:</b>		
Tax losses . . . . .	\$ 110	\$ 336
Other . . . . .	—	—
	<u>\$ 110</u>	<u>\$ 336</u>
Deferred tax liabilities consist of the following items:		
<b>Deferred tax liabilities:</b>		
Unrealized investment gains in Other Comprehensive Income . . . . .	<u>\$ —</u>	<u>\$ 18</u>

**20. RELATED PARTY BALANCES AND TRANSACTIONS**

Related party balances and transactions include balances and transactions with entities related by common control.

Included within cash and cash equivalents is \$10,563 (2015 — \$315) on deposit with Brookfield International Bank Inc. These deposits bear interest at the rate of 1 month US Libor plus 300 basis points and are repayable on 7 days notice.

Included within net investment income are investment asset management fees of \$63 (2015 — \$84; 2014 — \$113) to Brookfield Investment Management Inc. a related company that manages 36% of the Group's investments. Also included within net investment income is income of \$249 (2015 — \$10; 2014 — \$10) on cash and cash equivalents on deposit with Brookfield International Bank Inc.

Included within operating expenses are key management personnel compensation costs as detailed separately in Note 17 (iv).

During the year, the Company repaid the \$5,000 loan from Brookfield International Limited. The loan was non-interest bearing with no fixed terms of repayment.

**21. SIGNIFICANT SUBSIDIARIES**

Particulars of the Group's principal subsidiaries, all of which are wholly owned, are shown below. Each one of these subsidiaries exceeded the applicable minimum capital requirements of the jurisdiction in which it is domiciled.

<u>Subsidiary</u>	<u>Country of incorporation</u>
Imagine Insurance Company Limited . . . . .	Barbados
Imagine International Reinsurance dac . . . . .	Ireland

In August 2016, the name of Imagine International Reinsurance Limited ("IIRL") was changed to Imagine International Reinsurance dac ("IIRD"), pursuant to a requirement under Ireland's new *Companies Act 2014*.

Effective February 7, 2017, the name of Imagine Insurance Company Limited ("IICL"), was changed to Trisura International Insurance Ltd. ("TIIL").

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**21. SIGNIFICANT SUBSIDIARIES (Continued)**

Effective February 9, 2017, the name of Imagine International Reinsurance dac (“IIRD”), was changed to Imagine Asset Services dac (“IASD”).

**22. COMMITMENTS AND CONTINGENCIES**

The Group leases office space under operating leases expiring in various years through 2020. The future minimum rental payments related to these commitments are as follows:

	<b>2016</b>	<b>2015</b>
Less than one year . . . . .	\$ 88	\$ 55
Between one and five years . . . . .	20	109
	<b>\$108</b>	<b>\$164</b>

Included in operating expenses in the Consolidated Statement of Profit or Loss and OCI for the year is rent expense on all of the Group’s leased premises of \$89 (2015 — \$119; 2014 — \$159).

From time to time, in connection with its operations, the Company and its subsidiaries are named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings provisions are established, typically on a case by case basis, and regularly reviewed in light of any updated information which emerges over time.

The insurance industry has been the subject of regulatory scrutiny, including reviews of transactions considered to involve non-traditional or finite reinsurance products. The Group, like many companies in this industry, received a subpoena in November 2004 from the U.S. Securities and Exchange Commission related to non-traditional products. The Group also received a similar subpoena in June 2005 from the U.S. District Court for the Southern District of New York. The Group has cooperated fully with these agencies and has submitted information in compliance with the subpoenas.

## APPENDIX A — BOARD OF DIRECTORS CHARTER

### TRISURA GROUP LTD.

#### BOARD OF DIRECTORS CHARTER

##### 1. Role of the Board

The role of the board of directors (the “**Board**”) of Trisura Group Ltd. (the “**Company**”) is to oversee, directly and through its committees, the business and affairs of the Company, which are conducted by the Company’s officers and employees under the direction of the Chief Executive Officer (“**CEO**”).

##### 2. Authority and Responsibilities

The Board meets regularly to review reports by management on the Company’s performance and other relevant matters of interest. In addition to the general supervision of management, the Board performs the following functions:

- a) strategic planning — overseeing the strategic-planning process within the Company and, at least annually, reviewing, approving and monitoring the strategic plan for the Company, including fundamental financial and business strategies and objectives;
- b) risk assessment — assessing the major risks facing the Company and reviewing, approving and monitoring the manner of managing those risks;
- c) CEO — developing a position description for the CEO including the corporate objectives that the CEO is responsible for meeting, and selecting, evaluating and compensating the CEO;
- d) officers and senior management — overseeing the selection of corporate officers and the evaluation and compensation of senior management;
- e) succession planning — monitoring the succession of key members of senior management;
- f) communications and disclosure policy — adopting a communications and disclosure policy for the Company that ensures the timeliness and integrity of communications to shareholders, and establishing suitable mechanisms to receive stakeholder views;
- g) corporate governance — developing the Company’s approach to corporate governance, including developing a set of corporate governance principles and guidelines applicable to the Company;
- h) internal controls — reviewing and monitoring the controls and procedures within the Company to maintain its integrity, including its disclosure controls and procedures, and its internal controls and procedures for financial reporting and compliance; and
- i) culture — on an ongoing basis, satisfy itself that the CEO and other executive officers create a culture of compliance throughout the Company, including compliance with the Company’s Code of Business Conduct and Ethics and its anti-bribery and corruption policies.

##### 3. Composition and Procedures

- a) Size of Board and Selection Process — The directors of the Company are elected each year by the shareholders at the annual meeting of shareholders. The Governance and Compensation Committee recommends to the full Board the nominees for election to the Board and the Board proposes individual nominees to the shareholders for election. Any shareholder may propose a nominee for election to the Board either by means of a shareholder proposal upon compliance with the requirements prescribed by the *Business Corporations Act* (Ontario) or at the annual meeting itself. The Board also recommends the number of directors on the Board to shareholders for approval. Between annual meetings, the Board may appoint directors to serve until the next annual meeting.
- b) Qualifications — Directors should have the highest personal and professional ethics and values and be committed to advancing the best interests of the Company. They should possess skills and competencies in areas that are relevant to the Company’s activities. A majority of the directors will be

independent and unaffiliated directors based on the rules and guidelines of applicable stock exchanges and securities regulatory authorities.

- c) Director Education and Orientation — The Company’s management team is responsible for providing an orientation and education program for new directors, as well as ongoing education to directors.
- d) Meetings — The Board holds at least four scheduled meetings a year plus one to review the Company’s strategic plan, all chaired by the Chair of the Board. The Board is responsible for its agenda. Prior to each Board meeting, the Chair of the Board discusses agenda items for the meeting with the CEO and other members of senior management. Materials for each meeting are distributed to the directors in advance of the meeting. At the conclusion of each Board meeting, the independent and unaffiliated directors meet without any other person present. The Chair of the Board chairs these in-camera sessions.
- e) Committees — The Board has established two standing committees to assist it in discharging its responsibilities: the Audit Committee and the Governance and Compensation Committee. Special committees are established, from time to time, to assist the Board in connection with specific matters. The chair of each committee reports to the Board following meetings of their committee. The governing charter of each standing committee is reviewed and approved annually by the Board.
- f) Evaluation — The Governance and Compensation Committee performs an annual evaluation of the effectiveness of the Board as a whole, the committees of the Board and the contributions of individual directors, and provides a report to the Board on the findings of this process. In addition, each committee assesses its own performance annually.
- g) Compensation — The Governance and Compensation Committee recommends to the Board the compensation for non-management directors (it is the policy of the Company that management directors do not receive compensation for their service on the Board). In reviewing the adequacy and form of compensation, the Governance and Compensation Committee seeks to ensure that director compensation reflects the responsibilities and risks involved in being a director of the Company and aligns the interests of the directors with the best interests of the Company.
- h) Access to Outside Advisors — The Board and any committee may at any time retain outside financial, legal or other advisors at the expense of the Company. Any director may, subject to the approval of the Chair of the Board, retain an outside advisor at the expense of the Company.
- i) Charter of Expectations — The Board has adopted a Charter of Expectations for Directors which outlines the expectations the Company places on its directors in terms of professional and personal competencies, performance, behaviour, share ownership, conflicts of interest and resignation events.

## APPENDIX B — AUDIT COMMITTEE CHARTER

### TRISURA GROUP LTD.

#### AUDIT COMMITTEE CHARTER

A committee of the board of directors (the “**Board**”) of Trisura Group Ltd. (the “**Company**”) to be known as the Audit Committee (the “**Committee**”) shall have the following terms of reference:

#### 1. Membership and Chair

Following each annual meeting of shareholders, the Board shall appoint from its number three or more directors (the “**Members**” and each a “**Member**”) to serve on the Committee until the close of the next annual meeting of shareholders of the Company or until the Member ceases to be a director, resigns or is replaced, whichever occurs first.

The Members will be selected by the Board on the recommendation of the Governance and Compensation Committee of the Company (the “**Governance Committee**”). Any Member may be removed from office or replaced at any time by the Board. All of the Members will be Independent Directors. In addition, every Member will be Financially Literate and at least one Member will be an Audit Committee Financial Expert. Members may not serve on more than three other public company audit committees, except with the prior approval of the Board.

The Board shall appoint one Member as the chair of the Committee (the “**Chair**”). If the Chair is absent from a meeting, the Members shall select an Acting Chair from among those Members in attendance at the meeting.

#### 2. Subcommittees

The Committee may form subcommittees for any purpose and may delegate to a subcommittee such of the Committee’s powers and authorities as the Committee deems appropriate.

#### 3. Responsibilities

The Committee shall:

##### *Auditor*

- a) oversee the work of the Company’s external auditor (the “**auditor**”) engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attest services for the Company;
- b) require the auditor to report directly to the Committee;
- c) review and evaluate the auditor’s independence, experience, qualifications and performance (including the performance of the lead audit partner) and determine whether the auditor should be appointed or re-appointed and nominate the auditor for appointment or re-appointment by the shareholders;
- d) where appropriate, terminate the auditor;
- e) when a change of auditor is proposed, review all issues related to the change, including the information to be included in the notice of change of auditor required, and the orderly transition of such change;
- f) review the terms of the auditor’s engagement and the appropriateness and reasonableness of the proposed audit fees;
- g) at least annually, obtain and review a report by the auditor describing:
  - (i) the auditor’s internal quality-control procedures; and
  - (ii) any material issues raised by the most recent internal quality control review, or peer review, of the auditor, or review by any independent oversight body such as the Canadian Public Accountability

- Board or the Public Company Accounting Oversight Board, or governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the auditor, and the steps taken to deal with any issues raised in any such review;
- h) at least annually, confirm that the auditor has submitted a formal written statement describing all of its relationships with the Company; discuss with the auditor any disclosed relationships or services that may affect its objectivity and independence; obtain written confirmation from the auditor that it is objective within the meaning of the Rules of Professional Conduct/Code of Ethics adopted by the provincial institute or order of chartered accountants to which it belongs and is an independent public accountant within the meaning of the Independence Standards of the Canadian Institute of Chartered Accountants; and, confirm that the auditor has complied with applicable laws with the rotation of certain members of the audit engagement team;
  - i) ensure the regular rotation of the audit engagement team members as required by law, and periodically consider whether there should be regular rotation of the auditor;
  - j) meet privately with the auditor as frequently as the Committee feels is appropriate to fulfill its responsibilities, which will not be less frequently than annually, to discuss any items of concern to the Committee or the auditor, including:
    - (i) planning and staffing of the audit;
    - (ii) any material written communications between the auditor and management;
    - (iii) whether or not the auditor is satisfied with the quality and effectiveness of financial recording procedures and systems;
    - (iv) the extent to which the auditor is satisfied with the nature and scope of its examination;
    - (v) whether or not the auditor has received the full co-operation of management of the Company;
    - (vi) the auditor's opinion of the competence and performance of the Chief Financial Officer and other key financial personnel of the Company;
    - (vii) the items required to be communicated to the Committee in accordance with generally accepted auditing standards;
    - (viii) all critical accounting policies and practices to be used by the Company;
    - (ix) all alternative treatments of financial information within International Financial Reporting Standards (“**IFRS**”) that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor;
    - (x) any difficulties encountered in the course of the audit work, any restrictions imposed on the scope of activities or access to requested information, any significant disagreements with management and management's response; and
    - (xi) any illegal act that may have occurred and the discovery of which is required to be disclosed to the Committee pursuant to paragraphs 240.41-42 and 250.22-24 of the Canadian Auditing Standards;
  - k) annually review and approve the Audit and Non-Audit Services Pre-Approval Policy (the “**Pre-Approval Policy**”), which sets forth the parameters by which the auditor can provide certain audit and non-audit services to the Company not prohibited by law and the process by which the Committee pre-approves such services. At each quarterly meeting of the Committee, the Committee will ratify all audit and non-audit services provided by the auditor to the Company for the then-ended quarter;
  - l) resolve any disagreements between management and the auditor regarding financial reporting;
  - m) set clear policies for hiring partners and employees and former partners and employees of the external auditor;

### *Financial Reporting*

- n) prior to disclosure to the public, review, and, where appropriate, recommend for approval by the Board, the following:
  - (i) audited annual financial statements, in conjunction with the report of the external auditor;
  - (ii) interim financial statements;
  - (iii) annual and interim management discussion and analysis of financial condition and results of operations;
  - (iv) reconciliation of the annual or interim financial statements; and
  - (v) all other audited or unaudited financial information contained in public disclosure documents, including without limitation, any prospectus, or other offering or public disclosure documents and financial statements required by regulatory authorities;
- o) review and discuss with management prior to dissemination earnings press releases and other press releases containing financial information (to ensure consistency of the disclosure to the financial statements), as well as financial information and earnings guidance provided to analysts including the use of “pro forma” or “adjusted” non-IFRS information in such press releases and financial information. Such review may consist of a general discussion of the types of information to be disclosed or the types of presentations to be made;
- p) review the effect of regulatory and accounting initiatives, as well as any asset or debt financing activities of the Company’s unconsolidated subsidiaries that are not required under IFRS to be incorporated into the Company’s financial statements (commonly known as “off-balance sheet financing”);
- q) review disclosures made to the Committee by the Chief Executive Officer and Chief Financial Officer of the Company during their certification process for applicable securities law filings about any significant deficiencies and material weaknesses in the design or operation of the Company’s internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information, and any fraud involving management or other employees;
- r) review the effectiveness of management’s policies and practices concerning financial reporting, any proposed changes in major accounting policies, the appointment and replacement of management responsible for financial reporting and the internal audit function;
- s) review the adequacy of the internal controls that have been adopted by the Company to safeguard assets from loss and unauthorized use and to verify the accuracy of the financial records and any special audit steps adopted in light of material control deficiencies;

### *Internal Audit; Controls and Procedures; and Other*

- t) meet privately with the person responsible for the Company’s internal audit function (the “**internal auditor**”) as frequently as the Committee feels appropriate to fulfill its responsibilities, which will not be less frequently than annually, to discuss any items of concern;
- u) require the internal auditor to report directly to the Committee;
- v) review the mandate, budget, planned activities, staffing and organizational structure of the internal audit function (which may be outsourced to a firm other than the auditor) to confirm that it is independent of management and has sufficient resources to carry out its mandate. The Committee will discuss this mandate with the auditor, review the appointment and replacement of the internal auditor and review the significant reports to management prepared by the internal auditor and management’s responses. As part of this process, the Committee reviews and approves the governing charter of the internal audit function on an annual basis;

- w) review the controls and procedures that have been adopted to confirm that material financial information about the Company and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed, review the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of such controls and procedures;
- x) review risks of fraud related to financial reporting that come to the attention of the Committee, either through internal audit or otherwise;
- y) periodically review the status of taxation matters of the Company;
- z) consider other matters of a financial nature as directed by the Board;

***Risk Management Oversight***

- aa) review the Company's material risk management policies annually and, if considered appropriate, recommend such policies to the Board for approval;
- bb) review and consider with senior management the Company's risk capacity, risk-taking philosophy and approach to determining an appropriate balance between risk and reward;
- cc) review and evaluate the Company's significant financial risk exposures, including currency, interest rate, credit and market risks, and the steps senior management has taken to monitor and manage such risk exposures (through hedges, swaps, other financial instruments and otherwise), including the management of counterparty risk, in compliance with applicable policies;
- dd) review and discuss with senior management the Company's significant non-financial risk exposures, including strategic, reputational, operational, regulatory and business risks, and the steps senior management has taken to monitor and control such risk exposures in compliance with applicable policies;
- ee) review and confirm with senior management that material non-financial information about the Company and its subsidiaries that is required to be disclosed under applicable law or stock exchange rules is disclosed;
- ff) review with senior management the quality and competence of management appointed to administer risk management functions;
- gg) review with senior management the Company's compliance programs;
- hh) review the Company's insurance coverage, deductible levels, reinsurance requirement and various risk-sharing protocols;
- ii) review, with legal counsel where required, such litigation, claims, tax assessments and other tax-related matters, transactions, material inquiries from regulators and governmental agencies or other contingencies which may have a material impact on financial results, the Company's reputation or which may otherwise adversely affect the financial well-being of the Company;
- jj) review and evaluate the Company's susceptibility to fraud and corruption and management's processes for identifying and managing the risks of fraud and corruption;
- kk) review and evaluate risks of fraud related to financial reporting and other risk-related matters, as determined by the Committee; and
- ll) consider other matters of a risk management nature as directed by the Board.

**4. Limitation of Audit Committee Role**

The Committee's function is one of governance and oversight. The Company's management is responsible for preparing the Company's financial statements, along with the internal audit function, for developing and maintaining systems of internal accounting and financial controls, and for developing, maintaining and monitoring systems of risk management throughout the organization. The auditor will assist the Committee and



the Board in fulfilling their responsibilities for review of the financial statements and internal controls, and the auditor will be responsible for the independent audit of the financial statements. The Committee expects the auditor to call to its attention any accounting, auditing, internal accounting control, regulatory or other related matters that the auditor believes warrant consideration or action. The risk management function of the Company will assist the Committee in fulfilling its responsibilities for review and oversight of the Company's risk management program. The Committee expects the Company's risk management function and executive management to call to its attention any matters that warrant Committee consideration or action. The Committee recognizes that (i) the internal audit team and the auditor have more knowledge and information about the Company's financial affairs than do the Committee's members and (ii) the Company's management has more knowledge and information about the Company's material risks than do the Committee's members. Accordingly, in carrying out its oversight responsibilities, the Committee does not provide any expert or special assurance as to the Company's risk management activities, financial statements or internal controls or any professional certification as to the auditor's work.

## **5. Reporting**

The Committee will regularly report to the Board on:

- a) the auditor's independence;
- b) the performance of the auditor and the Committee's recommendations regarding its reappointment or termination;
- c) the performance of the internal audit function department;
- d) the adequacy of the Company's internal controls and disclosure controls;
- e) its recommendations regarding the annual and interim financial statements of the Company and any reconciliation of the Company's financial statements, including any issues with respect to the quality or integrity of the financial statements;
- f) its review of any other public disclosure document including the annual report and the annual and interim management's discussion and analysis of financial condition and results of operations;
- g) the Company's compliance with legal and regulatory requirements, particularly those related to financial reporting;
- h) its review of risk disclosure in the Company's financial reports;
- i) the Company's compliance with legal and regulatory requirements; and
- j) all other significant matters it has addressed and with respect to such other matters that are within its responsibilities.

## **6. Complaints Procedure**

The Committee will establish and periodically review a procedure for the receipt, retention, treatment and follow-up of complaints received by the Company through the reporting hotline or otherwise regarding accounting, internal controls, disclosure controls or auditing matters and a procedure for the confidential, anonymous submission of concerns by employees of the Company regarding such matters.

## **7. Review and Disclosure**

The Committee will review this Charter at least annually and submit it to the Governance Committee together with any proposed amendments. The Governance Committee will review this Charter and submit it to the Board for approval with such further amendments as it deems necessary and appropriate.

This Charter will be reproduced in full as an appendix to the Company's Annual Information Form.

## 8. Assessment

At least annually, the Governance Committee will review the effectiveness of this Committee in fulfilling its responsibilities and duties as set out in this Charter and in a manner consistent with the corporate governance guidelines adopted by the Board. The Committee will also conduct its own assessment of the Committee's performance on an annual basis.

## 9. Access to Outside Advisors and Senior Management

The Committee may retain any outside advisor, including legal counsel, at the expense of the Company, without the Board's approval, at any time. The Committee has the authority to determine any such advisor's fees and any other retention terms.

The Company will provide for appropriate funding, for payment of compensation to any auditor engaged to prepare or issue an audit report or perform other audit, review or attest services, and ordinary administrative expenses of the Committee.

Members will meet privately with senior management as frequently as they feel is appropriate to fulfill the Committee's responsibilities, but not less than annually.

## 10. Meetings

Meetings of the Committee may be called by any Member, the Chair of the Board, the Chief Executive Officer or Chief Financial Officer of the Company, the internal auditor or the auditor. Meetings will be held each quarter and at such additional times as is necessary for the Committee to fulfill its responsibilities. The Committee shall appoint a secretary to be the secretary of each meeting of the Committee and to maintain minutes of the meeting and deliberations of the Committee.

The powers of the Committee shall be exercisable at a meeting at which a quorum is present. A quorum shall be not less than a majority of the Members from time to time. Matters decided by the Committee shall be decided by majority vote. Subject to the foregoing, the *Business Corporations Act* (Ontario) and the by-laws of the Company, and, unless otherwise determined by the Board, the Committee shall have the power to regulate its procedure.

Notice of each meeting shall be given to each Member, the internal auditor, the auditor, and to the Chair of the Board and the Chief Executive Officer of the Company. Notice of meeting may be given orally or by letter, electronic mail, telephone or other generally accepted means not less than 24 hours before the time fixed for the meeting. Members may waive notice of any meeting and attendance at a meeting is deemed waiver of notice. The notice need not state the purpose or purposes for which the meeting is being held.

The Committee may invite from time to time such persons as it may see fit to attend its meetings and to take part in discussion and consideration of the affairs of the Committee. The Committee may require the auditors and/or members of the Company's management to attend any or all meetings.

## 11. Definitions

Capitalized terms used in this Charter and not otherwise defined have the meanings attributed to them below:

“**Audit Committee Financial Expert**” means a person who has the following attributes:

- a) an understanding of generally accepted accounting principles and financial statements;
- b) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;

- d) an understanding of internal controls and procedures for financial reporting; and
- e) an understanding of audit committee functions;

acquired through any one or more of the following:

- (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions;
- (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
- (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
- (iv) other relevant experience.

“**Financially Literate**” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

“**Independent Director**” means a director who has been affirmatively determined by the Board to have no material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. In addition to any other requirement of applicable securities laws or stock exchange provisions, a director who:

- a) is or was an employee or executive officer, or whose immediate family member is or was an executive officer, of the Company is not independent until three years after the end of such employment relationship;
- b) is receiving or has received, or whose immediate family member is receiving or has received, during any 12-month period within the last three years more than C\$75,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent;
- c) is or was a partner of, affiliated with or employed by, or whose immediate family member is or was a partner of or employed in a professional capacity by, a present or former internal or external auditor of the Company is not independent until three years after the end of the affiliation, partnership or employment relationship with the auditor; and
- d) is or was employed as, or whose immediate family member is or was employed as, an executive officer of another company (or its parent or a subsidiary) where any of the present (at the time of review) executive officers of the Company serve or served on that company’s (or its parent’s or a subsidiary’s) compensation committee, is not independent until three years after the end of such service or the employment relationship.

Additionally, an Independent Director for the purpose of the Committee specifically may not:

- (i) accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service); or
- (ii) be an affiliated person of the Company (within the meaning of applicable rules and regulations).

For the purposes of the definition of “Independent Director”, the term “Company” includes any parent, subsidiary or other affiliated entity of the Company.

In addition to the requirements for independence set out in paragraph (c) above, Members must disclose any other form of association they have with a current or former external or internal auditor of the Company to the Governance Committee for a determination as to whether this association affects the Member’s status as an Independent Director.

**CERTIFICATE OF THE ISSUER AND PROMOTER**

Dated: May 12, 2017

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

**TRISURA GROUP LTD.**

(Signed) GREG MORRISON  
Chief Executive Officer

(Signed) ALLEN TAYLOR  
Chief Financial Officer

On behalf of the Board of Directors

(Signed) DAVID NOWAK  
Director

(Signed) ARIN JONATHAN SILBER  
Director

The Promoter  
**BROOKFIELD ASSET MANAGEMENT INC.**

(Signed) JEFFREY M. BLIDNER  
Senior Managing Partner

